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# **NATIONAL PLANNING COMMITTEE SERIES**

*Rural Marketing and Finance*

*River Training and Irrigation*

*Soil Conservation and Afforestation*

*Land Policy, Agricultural Labour and Insurance*

*Animal Husbandry and Dairying, Horticulture and Fisheries*

*Crops—Planning and Production*

*Rural and Cottage Industries*

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*Chemical Industries*

*Mining and Metallurgical Industries*

*Manufacturing Industries*

*Industries connected with Scientific Instruments and  
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*Trade—(Internal and Foreign)*

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*Transport (Road, Rail, Air and Water)*

*Communications (Posts, Telegraphs, Telephones and Radio)*

*Public Health and Housing*

*Education—General and Technical*

*Woman's Role in Planned Economy*

**NATIONAL PLANNING, ITS PRINCIPLES AND**

**ADMINISTRATION**

***K. T. Shah.***

NATIONAL PLANNING COMMITTEE SERIES

**RURAL MARKETING  
AND  
FINANCE**

*Chairman*

Hon'ble Mr. RAMDAS PANTULU

*Secretary*

Dr. SUDHIR SEN

*Edited by*

K. T. SHAH

Honorary General Secretary

NATIONAL PLANNING COMMITTEE

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*First Edition, October, 1947*

To  
All Those  
**MEMBERS OF THE NATIONAL PLANNING COMMITTEE**  
and of  
Its Various Sub-Committees  
**A TRIBUTE OF APPRECIATION**

**प्रारब्धमुक्तमजना न परित्यजन्ति**

**PERSONNEL OF SUB-COMMITTEE ON  
RURAL MARKETING & FINANCE**

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## PREFACE

The National Planning Committee appointed in 1938, began its work early in 1939. After defining the nature of a National Plan, and determining the nature and scope of the work entrusted to them, the Committee issued an elaborate and comprehensive questionnaire which was subsequently supplemented by specific details. Twenty-nine Sub-Committees, formed into eight groups were set up with special terms of reference to deal with all parts and aspects of the national life and work in accordance with a predetermined Plan.

After some unavoidable delay in getting replies to the Questionnaire, the Sub-Committees began their work, and submitted Reports,—some of them Final, some Interim.—which were considered at Plenary Sessions of the Parent Committee in 1940. Towards the end of that year the Chairman, Pandit Jawaharlal Nehru, was arrested and sentenced to a long term of imprisonment, during which the work of the Committee had necessarily to be suspended.

On his release a year later, hope revived for an intensive resumption of the Committee's work. But the outbreak of war with Japan, the threat to India's own safety, and hectic march of political events, rendered it impossible to devote any attention to such work at that time. It, therefore, inevitably went into cold storage once again; and remained for the duration of the war.

When at last the War seemed nearing its end, Pandit Jawaharlal Nehru with other leaders was released. The moment seemed again opportune to resume the work of

the Planning Committee. Meetings of that Body were held in September and November 1945, when certain more urgent questions, already included in the programme of the National Planning were given a special precedence. A Priority Committee was appointed to report upon them. Changes and developments occurring during the War had also to be taken into account; and another Committee was appointed to review the general instructions, given six years earlier to the Sub-Committees. Revised instructions were issued to them following the Report of this Sub-Committee; and the Chairmen and Secretaries of the several Sub-Committees were once again requested to revise and bring, up to date, such of the Reports as had already been submitted—either as final or interim—while those that had not submitted any reports at all were asked to do so at an early date.

As a result, many of the Sub-Committees which had not reported, or had made only an Interim Report, put in their Reports, or finalised them. The Parent Committee has had no chance to review them, and pass resolutions on the same. But the documents are, by themselves, of sufficient value—prepared as they are, by experts in each case, to be included in this series.

The following Table shows the condition of the Sub-Committee's work, and the stage to which the Planning Committee had reached in connection with them.

**NAWAB SALAR JUNG BAHADUR.**

Group I.		Agriculture & other Sources of Primary Production	N.P.C. Resolutions N.P.C.	N.P.C. Resolved by N.P.C.	N.P.C. Resolved by the N.P.C.
1.		Rural Marketing and Finance			
2.		River Training and Irrigation	Part I		
		"	Part II		
3.		Soil Conservation and Afforestation			
4.		Land Policy and Agriculture			
5.		Animal Husbandry and Dairying			
6.		Crop Planning and Production			
7.		Horticulture			
8.		Fisheries			
Group II		Industries or Secondary Sources of Production			
1.		Rural and Cottage Industries			
2.		Power and Fuel			
3.		Chemicals			
4.		Mining and Metallurgy			
5.		Engineering Industries			
6.		Manufacturing Industries			
7.		Industries connected with Scientific Instruments			
Group III		Human Factor			
1.		Labour	89-92		
2.		Population	85-87		
Group IV		Exchange and Finance			
1.		Trade		130	
2.		Industrial Finance			
3.		Public Finance			
4.		Currency and Banking			
5.		Insurance			
Group V		Public Utilities			
1.		Transport			
2.		Communications			
Group VI		Social Services-Health and Housing			
1.		National Housing			
2.		Public Health			
Group VII		Education			
1.		General Education			
2.		Technical Education			
Group VIII		Woman's Role in Planned Economy			

To sum up, fourteen Sub-Committees had made final reports, of which ten have been considered, and Resolutions taken upon them, by the National Planning Committee. Twelve more have presented Interim Reports, of which nine have been considered by the Planning Committee, with Resolutions thereon, while three Sub-Committees have not yet presented any report on the reference made to them.

The idea that all this material, gathered together with the help of some of the best brains in India in the several departments of our national life, should be printed and published was before the Committee from the start. But the interruption caused by the war prevented its realisation. It was once again mooted in 1941; but the moment was not deemed ripe then for such action, partly because the leading spirits in almost every one of the Sub-Committees were unable to devote time and labour to bring their Reports up-to-date; and partly also because war-time restrictions or shortages had made scarcer than ever before the statistics and other facts, which particular sub-committees would need, to bring their work up-to-date. The War time needs of Government had attracted several of them to work on Government Bodies, Panels, or Committees. For all these reasons it was deemed undesirable that material of this character—valuable as it must be—should be put out in an incomplete, inchoate, obsolete form, which may reflect unfavourably upon Indian capacity for such tasks.

The last four years of the War were thus a period of suspended animation for the National Planning Committee. Even after the end of the war, it has not been feasible for obvious reasons, for the Planning Committee to resume its work and finalise decisions. Continuous Sessions of that body are indispensable for considering and taking decisions on the Sub-Committee reports presented since 1940, and putting all the material into shape, ready for publication, not to mention making its own Report; but the political situation in the country made it impossible. Other conditions, however, are somewhat more favourable than in 1938-39, when the Central Government of the country were all but openly hostile to such attempts. Lest, however, the momentary difficulties make for needless further delay, it was thought advisable by the Chairman and the undersigned that no more time should be lost in putting this material before the Public. Following this advice, it is now proposed to bring out a complete Series of the National Planning Committee's Sub-Committee Reports, which will

serve as appendices to the Parent Committee's own Report. The Plan of the proposed enterprise is briefly summarised below.

Every Sub-Committee's Report, which is in a final form and on which the National Planning Committee has itself taken resolutions, will be edited and published, with an Introduction assigning their due importance to the suggestions and recommendations contained in that particular report, its proper place in the over-all National Plan; and following it up, wherever necessary, by a kind of Epilogue, summarising the developments that have taken place during the seven years, during which the work of the Planning Committee had been in suspension.

Those Reports, again, which, though in a final form, have not yet been considered, and no resolutions taken thereon, by the Planning Committee, will also be included in the Series in the form in which they were submitted, with such Introduction and Epilogue to each as may be deemed appropriate. And the same treatment will be applied to Reports which are 'Ad Interim', whether or not the Parent Committee has expressed any opinion on the same. They will be finalised, wherever possible, in the office, with such aid as the Chairman or Secretary of the Sub-Committee may be good enough to render. Sub-Committees finally, which have not submitted any Report at all,—they are very few,—will also find their work similarly dealt with. The essence, in fine, of the scheme is that no avoidable delay will now be suffered to keep the National Planning Committee's work from the public.

Both the Introduction and the Epilogue will be supplied by the undersigned, who would naturally be grateful for such help as he may receive from the personnel of each Sub-Committee concerned. The purpose of these additions is, as already stated, to assign its true place to each such work in the overall Plan; and to bring up the material in each Report to date, wherever possible.

Not every Sub-Committee's Report is sufficiently large to make, more or less, a volume by itself, of uniform size, for this Series. In such cases two or more Reports will be combined, so as to maintain uniformity of size, get-up, and presentation of the material. The various Reports, it may be added, would not be taken in the order of the classification or grouping originally given by the Planning Commit-

tee; nor even of what may be called the intrinsic importance of each subject.

In view of the varying stages at which the several Reports are, for reasons of convenience, it has been thought advisable to take up for printing first those which are final, and on which the Planning Committee has pronounced some resolutions. Printing arrangements have been made with more than one Press, so that two or three Reports may be taken simultaneously and published as soon as possible so that the entire series may be completed in the course of the year.

Two other Sub-Committees not included in the list of Sub-Committees given above, were assigned special tasks of (1) preparing the basic ideas of National Planning; and (2) outlining the administrative machinery deemed appropriate for carrying out the Plan. These were unable to function for reasons already explained. The present writer has, however, in his personal capacity, and entirely on his own responsibility, published the "Principles of Planning" which attempt to outline the fundamental aims and ideals of a National Plan which remains to be considered by the Planning Committee. Similarly, he has also attempted to sketch an administrative machinery and arrangements, necessary to give effect to the Plan, when at last it is formulated, and put into execution. Notwithstanding that these two are outside the Scheme outlined in this Preface, they are mentioned to round up the general picture of the arrangements made for publication of the entire work up-to-date of the National Planning Committee and its several Sub-Committees.

The several volumes of Sub-Committee Reports, when published, will be treated as so many appendices to the Report of the parent body, the National Planning Committee. It is impossible to say when that Committee, as a whole, will be able to hold continuous sessions, review and resolve upon Sub-Committee Reports which have not yet been considered, and lay down their basic ideas and governing principles for an all over Plan, applicable to the country, including all the facts of its life, and all items making up the welfare of its people.

The disturbed conditions all over the country, and the Labour unrest that has followed the end of the War has caused unavoidable delays in printing and publishing the

several volumes in the series, which, it is hoped, will be excused.

In the end, a word of acknowledgment is necessary to put on record the aid received by the Editor in the preparation and publication of this Series. All those who are associated in the task,—members of the Parent Committee, or as Chairmen, Secretaries or Members of the various Sub-Committees, have laboured wholly, honorarily, and consistently striven to give the best that lay in them for the service of the country. Almost all Provincial Governments and some States,—the latter twice in some cases,—have made contributions towards the expenses of this office, which have been acknowledged and accounted for in the Handbooks of the Planning Committee, published earlier. Suitable appreciation of these will be expressed when the Parent Committee makes its own Report. At almost the end of its task, the expenditure needed to edit, compile, and otherwise prepare for the Press, the several Reports, has been financed by a Loan by Messrs. Tata Sons Ltd., which, even when repaid, will not diminish the value of the timely aid, nor the sense of gratitude felt by the undersigned.

Bombay,  
1st July, 1947. }

**K. T. Shah**

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## INTRODUCTION.

### *Rural Marketing and Finance.*

This is the first Sub-Committee, in the very first group of Sub-Committees, which deals with the Agricultural wealth of the country. It was given the following reference:—

- (a) organisation and technique of markets in rural areas at convenient centres;
- (b) storing and grading of commodities;
- (c) financing of such commodities while being marketed, and devising appropriate institutions and instruments to develop rural credit;
- (d) place and burden of middlemen in marketing;
- (e) the necessary transport facilities;
- (f) method of distributing the portion needed for local consumption;
- (g) organisation of the village community for efficient distribution of commodities and rapid turnover;
- (h) regulation and development of local trade, (including advertising) and control and regulation of prices;
- (i) correlating each unit's trade with the means of production within that unit;
- (j) organisation of the unit's trade with other units within the country or outside.

### **Function of Exchange in National Economy.**

The importance of Marketing, or Exchange in the Economic System as a whole need not be explained or emphasized here. It is well known that even if the exchange of commodities and services does not produce new material wealth,—it is exchange of wealth already produced,—it adds to the time and place value of commodities and services by bringing them from the place where they may be in super-abundance to the place or time where they may be in keen demand. By this process it facilitates division of labour and specialisation of functions; and so actually adds in course of time to the volume of production also.

### **Freedom of Trade Under Planned Economy.**

The reason, however, why this subject has special importance in planned economy and needs particularly to be

stressed is that, unlike other sectors of the economic system, the domain of Exchange or Marketing is believed to be peculiarly sacred to individual initiative and freedom of enterprise. Under a proper, comprehensive scientific Plan, however, the field of Commerce—Exchange—would need to be as much controlled, regulated and co-ordinated,—even if it is not made a public monopoly—as any other aspect of the nationally planned economy. Unless the closest supervision and control are enforced on all exchange of commodities and services, at home or by way of foreign trade, the entire Plan would run the risk of being frustrated and overthrown.

In the case of marketing of rural produce, such control and regulation are much more important than in the case of large-scale, mechanised, well-organised industries, as the latter are much more competent to secure the maximum of their own benefit in Exchange. The villager, however, is usually ignorant and unorganised. He knows not the trend of the market or the mystery of price movements. His resources are limited; his need urgent; his dependance on other parts of the economic system far more complete than is conducive to his own good. In a scientifically planned economic system, therefore, the organisation of efficient marketing arrangements must necessarily occupy a key position.

### Marketing Under Village Self-Sufficiency.

The most superficial consideration of the Agrarian economy of this country would reveal the lack of proper marketing facilities, or Sales Organisation, as among its most outstanding handicaps. There are a number of reasons, or explanations, as to why the Indian Agriculturist has not developed a suitable and sufficient machinery for marketing his produce, so that he could secure an adequate price for his wares, whether food grains, animal products, or raw materials of industry. He has worked all these ages on the basis of local self-sufficiency, wherein the village he ordinarily lived in tried to meet its own needs from its own resources of man and material. Trade there was, both in ancient and medieval India as today; both internal and overseas; and that on a fairly large scale. But it was a trade in surplus or speciality which did not affect the basic self-sufficiency of the village. But that economy is breaking down, even in the villages; and its place is being taken by large-scale, local and international commerce,—a world wide exchange of commodities, wherein an efficient marketing system becomes the indispensable key to the entire situation.

While a fairly modern and adequate trading mechanism has been evolved to suit modern conditions of a world-wide

market, as far as large-scale industry is concerned; while there are in the principal towns of India fairly well organised stock and commodity Exchanges, there is no effective and appropriate corresponding machinery to cover satisfactorily the rural areas, which consist of four-fifths of the country's population, and account for an equally large proportion of its internal and foreign trade.

### **Cash Economy—Peasant's Handicap.**

The main reason, besides the relatively archaic conditions of agricultural life in India, is to be found in the illiteracy of the agriculturist. He is unaware of the available markets for his produce away from his own immediate circle, and of the conditions prevailing there. He is, therefore, an easy prey to the village merchant, who is almost invariably also the village moneylender, having the cultivator and all that is produced by him in his relentless grip. Nine out of ten agriculturists are indebted. At harvest time, therefore, they have hardly an option but to offer their produce to the local merchant—on such terms as the latter may dictate. The peasant, moreover, has no staying power. If he feels the price offered to him for his produce is insufficient, he cannot wait till a better buyer arrives, or a better opportunity presents itself. He has, for one thing, to meet his Land Revenue demand in cash, which is more a handicap than an advantage under a settled Government. Whatever the benefits of a System of Cash Settlement of Land Revenue, fixed for a number of years, as a safeguard against corrupt Revenue Collectors, it has the great drawback of making the peasant unduly anxious to turn his crops into cash. The burden of the State thus conspires with the claims of the Moneylender to rob him of such choice as the cultivator may have for waiting till a fair deal offers itself.

### **Organisation and Technique of Rural Markets.**

These difficulties of the cultivator add to the effect of his general ignorance of business conditions around him, and of the ways and means of financing his occupation and moving his produce. The modern transport facilities reach only a small fraction of the cultivating class. Most of the peasants are innocent in regard to the devious ways of the railway rating system, the effect of the new and mechanised road transport, the alternative of water transport; and, of course, the mysteries of claims for demurrage etc. Storing and grading are equally uncommon; and the added advantage of cold storage for perishable goods, corn, dairy produce, eggs and poultry, fruit, fish, etc.,—is all but unknown to him. His traditional bullock cart can effect but little transport,—perhaps

from the field to the merchant's godown. He has conspicuous lack of barns, granaries and/or godowns where he can house and hold his produce. He knows, of course, the quality of his own produce. But to ask him to guarantee uniform quality to a bulk purchaser, and to maintain it year after year, is to ask of him the impossible. He has no conception of standardisation; and has not sufficient weight and standing to offer his own certificate as sufficient guarantee of particular quality. Marketing under modern conditions without such guarantee means a needless handicap on the already overburdened cultivator.

#### **Peasant's Indebtedness—Another Handicap.**

The proverbial indebtedness of the peasant is no peculiarity of India. But the creditor's demand for cash at inconvenient moments, and the tax-gatherer's urge at equally unseasonable times, makes him peculiarly exposed and vulnerable in the matter of staying power. The average Indian agriculturist has a holding, so scattered and scanty, so dismembered and dispersed, that he can hardly expect to eke out a decent living for an average family of five persons dependent on such a holding for their bare existence, without any thought of other creature comforts. He has perennial dread of failure of rainfall, or its irregular distribution, without which crops can scarcely be raised. The only effective guarantee against this handicap of Indian agriculture, irrigation from rivers, wells or tanks, public or private, helps to-day, after a century of irrigation activity, only a sixth of the area under crops. Crop of foodgrains or raw materials, sufficient to meet the needs of a normal family, is accordingly available to an average cultivator perhaps once in three out of five years. This means that the agriculturist in this country cannot possibly have a surplus to form a sort of a basis for credit, or an insurance against the everyday risks of his industry. And, not having any such surplus he seldom has the wherewithal to meet as and when the demands upon him fall due annually. Without knowledge, without credit, and without staying power, marketing his wares becomes for the Indian Peasant an act of urgent necessity which will only add to increase and intensify his already unbearable poverty.

#### **Marketing Departments Organisation.**

It was the appreciation of these obvious difficulties of Agrarian Economy, which led the Royal Commission on Agriculture and the Indian Banking Commission, to recommend an immediate institution of adequate and appropriate Marketing Machinery for the benefit of the Indian Farmer. With an

impetus from the Central Government, and armed with a subsidy from it, where needed, many of the handicaps noted above would disappear, or become ineffective. Each of the two great authorities named above had, no doubt, approached the problem from its own particular angle,—though that of the Agricultural Commission was necessarily more broadbased than that of the Banking Commission. Following these recommendations, the Central Agricultural Marketing Department of the Government of India began in 1935 with the appointment of an Agricultural Marketing Adviser, whose staff and scope of activities have grown in proportion as the institution has proved itself useful. Provincial and State Governments have been encouraged to reproduce a similar organisation in their own respective jurisdiction. Other organisations, like the Imperial Council of Agricultural Research, have offered their own quota in developing these much needed facilities in particular directions or for specific commodities.

### Functions.

The main function of the Marketing Department is to carry out marketing surveys in the form of reports. These reports describe in detail the existing marketing organisation for the commodities surveyed, and make recommendations for their improvement. The information thus collected needs not only to be properly distributed, it needs also to be intelligently digested. And all the other items mentioned in the terms of reference need similarly to be made the function of some systematic organisation, with a branch in each village, to make rural marketing a real service to our aggregate agrarian economy.

As an indispensable facility in marketing effectively and profitably, the Survey must also suggest ways and means for certifying and assuring quality to the buyer. After examining the chemical properties and physical characteristics of each commodity, its marketing survey must give appropriate specifications, based upon such chemical and physical characteristics, and after adequate testing under working conditions.

All-India Marketing Survey Reports of this kind have already been made in respect of:—

Wheat, linseed, eggs, tobacco, grapes, coffee, potato, milk, groundnuts, rice, hides, sugar, citrus fruits, lac, skins, cocoanut, gram, banana, cashewnut, barley, sheep and goats.

Reports on fish, cattle, wool, and hair are shortly expected.

Those on other commodities, like rape seed, mustard and toria, stone and small fruits, maize and millets, sann hemp,

castor seed, ghee and other milk products, sesamum and niger seed, meat, poultry, mangoes, pulses, fibres and chillies, are at different stages of preparation.

A good part of the value of these Survey Reports lies in the statistical material they collect and other objective information they provide. Wherever necessary, these are and will be brought up-to-date from time to time. Such useful publications as "A Handbook on the Quality of Indian Wool"; or "Preliminary Guide to Indian Fish, Fisheries, and Methods of Fishing and Curing" arise from the same basic material; and add to the effectiveness and utility of the Marketing Organisations and arrangements springing up all over the country in the commodities surveyed. The existing machinery, in the shape of fairs, weekly markets at central places, "Mandies" and Co-operative Marketing Societies,—both for purchase of agricultural requirements and for sale of agricultural produce, have also been surveyed in some of these Reports; and suggestions made where they could be improved.

During the War, and because of the urge created by it, the Government of India ordered rapid surveys being made in respect of certain vegetables like peas, beans, cabbage and cauliflower, tomatoes and carrots, bones and bonemeals. For the Indian Agriculturist's benefit, similar rapid surveys were also ordered in 1943, in regard to modern agricultural implements and machinery. These reports have been submitted to Government, which, however, have not published them, for reasons of their own. Rapid Surveys of Milk (1944), and of Cordamum and Areca-nuts (1945) were also carried out for specific reasons. The publication of the reports is under consideration.

### Storage and Grading.

As early as 1937, soon after the appointment of the Central Marketing Adviser, a Special Survey was carried out in regard to the Cold Storage and Special Transport necessary for the perishable products of Agriculture and connected Industries e.g. eggs, fish, fruit, etc. In view of the shortage of specially suitable wagons for this task, and transport difficulties in general, further prosecution of this subject has had to be deferred, though trials of a specially suitable type of wagon for cold storage and quick transport were carried out as early as 1940-41.

Besides examining the existing marketing facilities for particular products, and suggesting ways and means of their improvement, the Marketing Department helps in securing and maintaining proper quality. The Royal Commission on

Agriculture had recommended that organised trade associations, dealing in agricultural products, should exert pressure for securing standardised and certified grade in leading commodities of commerce, so as to obtain the best market for the agriculturist. The preliminary marketing surveys had also emphasised this requirement; and so the Organisation was called upon to make physical grading and suggestions for suitable packing of certain commodities like fruits or eggs which won't keep, and are liable to great damage in transit. Statutory Standards have now been prescribed for such materials. The terms of contract for some of the staple commodities, like cereals and oilseeds, have also been standardised.

The Agricultural Produce (Grading and Marketing) Act of 1937 defined standards of quality, and laid down methods of marking of prescribed grade designations in respect of the commodities mentioned in the Schedule. These now apply to:—

Fruits, eggs, vegetables, dairy produce, tobacco, coffee, hides and skins, fruit products, oil, oilseeds, vegetable oils (including hydrogenated oils and vegetable fats), cotton, rice, lac, wheat, sann hemp, sugarcane, gur (jaggery), myrobalams and bura. The "AGMARK" has become a recognised currency of the agricultural produce market. And though the value of the produce coming under the influence of such marking and grading is still relatively small,—being Rs. 8.13 crores in 1944, and Rs. 7.31 crores in 1945 (over 70% of these being ghee), the idea is definitely spreading through the 323 centres now functioning where standardised grading, and packing according to rules, is made. The total agricultural produce needing to be exchanged may be estimated, after due allowance for the peasant's own consumption, at Rs. 1,500 crores per annum at present prices. Seven or eight crores out of this is hardly one-half of one per cent. If the marketing organisation is to be really effective, it must be universalised; and must bring within its scope the entire produce of the countryside seeking to be exchanged. The Plan would be lacking in one of its most important adjuncts if this system is not universalised and so made effective all over the land for all commodities.

The war-time controls and scarcity following the war in given commodities, as well as the difficulties in regard to transport, are responsible for the seeming decline in the system, recorded above. For the first grading, provisional standards were fixed for experimental purposes; and these have been improved and amplified by growing experience. The process

is now carried on mainly on a voluntary basis, by packers holding a Certificate of Authorisation issued by the Agricultural Marketing Adviser. The packer thus authorised may be a private processor, a cooperative society, or a manufacturer. Their operations are controlled by a staff of inspectors recruited from the Agriculture and Veterinary Departments of the several States and Provincial Governments.

### Agmark—A Guarantee of Quality.

The "AGMARK" is a guarantee of quality which is maintained by frequent analysis of samples. Ten thousand samples of ghee, and quite a large number of edible oil, were thus analysed in the Central Control Laboratory at Cawnpore in 1945. The authorised Officers, Representatives of Trade-Associations, and others specially authorised to visit the Grading Centres and inspect graded products, pick up samples for analysis and send them on to the Central Laboratory. The report of the Analyst shows whether the prescribed quality was maintained. The Agricultural Produce (Grading and Marketing) Act was amended in 1943 to enable the cost of the system being recovered in some measure from the packers who were the principal beneficiaries under the Act. The Quality Control is thus becoming more and more selfsupporting, particularly in commodities mainly produced for the Export Market.

As remarked earlier, until quite recent times, the Agrarian Economy of India was based mainly on local self-sufficiency. Such marketing of agricultural produce, and that of its associated or dependent industries as there was, was local, i.e. to the village merchant, or in the neighbouring towns. With the growth of modern, mechanised, large-scale industry, and the advent of production for exchange instead of production for use, the need for a wider market was becoming daily more insistant. The requirements of a Foreign Government which held sway until the 15th of August 1947 in the country, also necessitated greater attention being paid to the export of Indian produce,—if only to facilitate the payment of the so-called Home Charges, which was a camouflaged tribute exacted by British Imperialism from India.

The Royal Commission on Indian Agriculture emphasised the need for grading of Indian agricultural produce. If the cultivator was not forever to be at the mercy of the local trader; if he was not to be confined to a limited market in close vicinity; Export Markets must be discovered or developed for his produce. There is, no doubt, in many countries

considerable demand for Indian produce, as is revealed year after year in the *Review of the Foreign Trade of India*. The Trade Commissioners of the Government of India, both in Eastern and Western countries, have also pointed out again and again that the main obstacle in the way of pushing Indian Agricultural produce in the countries they were stationed in was an absence of standardisation in quality and guarantee of its being maintained. In consequence they have advised an organised attempt at improving the quality of exported goods from this country.

### Instances of Grading.

As mentioned already the Agricultural Marketing Department has taken the matter in hand almost from its start. In 1949 a Scheme was initiated by it for the grading and marketing of seedlac exported from India. During the period July 1941, to January 1942, two consignments of graded seedlac, weighing 2,194 maunds, were exported to the United States. The report on the first consignment was favourable, but the attempt had to be abandoned because of the abnormal conditions of war-time trade. **NAWAB SALAR JUNG BAHADUR**

The Scheme for grading and marketing Sann Hemp is still in its preparatory stage. But the combined efforts of the Agricultural Marketing Department as well as of the Trade Commissioner in Alexandria (Egypt) have resulted in the introduction of the Indian tobacco in the Egyptian Market, where a good trade in the article has begun on the basis of the "AGMARK" grades. War-time demand for improving tobacco in India itself, and the difficulties of transport have prevented the larger export market in this commodity in Britain or countries of the Near East being properly exploited and developed. With the return of more normal conditions, the hope is not vain for a steadily improving trade in this regard.

The Australian Market for Indian Goat Hides offers similar prospects, if suitable quality can be guaranteed. The British Market is suffering for the moment from Exchange shortage; and the same difficulty hampers the Indian Exporter to America. Goat hair and Wool from India are other articles with export possibilities, which would benefit materially by properly standardised grades. Indian nuts, like cashew or groundnuts, almonds or apricot stones, may likewise be advantageously used in the chocolate industry in countries like Canada, if assurances of quality could be secured and maintained; and other such commodities may follow suit.

### Growing Export Market—Its Limitations.

The prospects of a steadily expanding Export Market in a growing variety of agricultural produce from India must, however, not blind the Planning Authority for this country to the use of such commodities as raw material for corresponding industry in the country itself. Most of the articles mentioned above could as well be worked up into finished products suitable for immediate consumption by developing the necessary industries, thereby providing additional and profitable employment for India's own labour and capital. The power that ruled in this country hitherto had its own reasons for emphasising the benefit of Export Trade to Indian Economy. But with the advent to power of a really popular Nationalist Government in this country, the very foundations of our archaic national economy would have to be reordered. It is in this regard that the preparation of a comprehensive Plan of All-round Development would be of lasting benefit to the country's economy, and its people's standard of living. But even from this angle, the importance of a proper and effective Marketing Organisation cannot be exaggerated.

### Storage Facilities in Rural Markets.

Side by side with proper grading, and consequent guarantee of quality, there must be adequate facilities for storing commodities brought to market by the rural producer. In the days of Village Self-Sufficiency, when each producer sold direct to the village merchant, this need was insignificant. But with the growth of production for exchange to unknown buyers, the need for proper storing for sale at the correct psychological moment becomes inescapable. The organisation of Central Markets, under specific legislation in the several States and Provinces, has gone some way, not only to provide sufficient space for holding such markets, and storing the wares; but also adding all the required facilities of cold storage and other preservatives for perishable commodities, just as much as for watch and ward of the produce stored. A fuller development of this system would obviate the need for unnecessary cross transport, which is at present responsible for so much waste of energy. Bombay has recently legislated for providing Licensed Warehouses in the rural parts of the Province, which, when universalised, would help the peasant substantially in realising a fair return for his labour. Such warehousing would, indeed, be unnecessary to provide in every village. But if all convenient centres had such facilities, the cultivator would be freed from his present dependence upon the local trader, who is also a money-lender.

### **Adequate Transport Facilities Indispensable.**

As an inseparable adjunct to proper marketing, adequate and appropriate Transport Facilities are indispensable. India has today some 45,000 miles of rail roads. But they have to serve an area of over a million and half square miles, which is quite inadequate for satisfactory and profitable marketing of the produce from outlying villages. As compared with the United States, where they have over 200,000 miles of rail roads, and some 200,000 miles of motorable highways,—not to mention thousands of miles of navigable inland waters,—to serve a continental area of about double that of this country, India is deficient in roads, as well as railways; and has hardly any inland water transport worth the name. The War and its aftermath had dislocated such transport facilities as this country needs; and so made the handicap greater than ever before. If the national economy is to be properly developed from all angles, and to safeguard equally the interests of all sections of the community, the available Transport facilities of every kind will have to be very much improved and expanded. Even the principles of charging transport dues on the country's produce need to be radically reconsidered from the standpoint just mentioned. The several means of transport, finally, ancient as well as modern, will have to be all co-ordinated and integrated 'inter se,' so as to form a single integral whole, and work as a real Public Utility Service for the country collectively. As, however, another Sub-Committee of the National Planning Committee deals with this problem, it is unnecessary to elaborate this matter any further.

### **Price Control. Guarantee of Adequate Return.**

The exigencies of the War have brought a system of Price Control, which, though restricted and halting in its conception and operation, is bound to play a most important role in planned economy. For several articles of everyday necessity prices have been fixed, both floor and ceiling. This is an indirect guarantee, an invisible subsidy—which has not always been in the best interests of the producer,—e.g. in the case of raw cotton; but which is unavoidable so long as our national economy is founded on the principle of individual initiative and private profit.

The system of Price Control has not worked without any hindrance; and the activities of the Black Market are notorious and widespread. Nevertheless control and regulation of prices is inevitable, if the peasant is to be guaranteed a fair return for his labour and output. The Priorities Sub-Committee of the National Planning Committee has made a special point of

this subject, in its recommendations; and the Revised Instructions to the Sub-Committees from the parent body have also stressed the matter to an unmistakable degree. The new Government of the Union of India have set up a Price Control Board, whose recommendations have yet to be implemented. Perhaps the latest developments, following upon the Partition of the country, have left no time to Government to deal with such basic problems of our national economy. But the existence of those grave problems is undoubtedly, and so, whenever a proper machinery is set up to carry out the Plan, we may be sure this item will occupy no small place in it.

#### **Financing and Marketing of Rural Produce.**

For the greater portion of the rural produce, the necessary finance is still provided by the Village Trader. Most of the peasants are indebted to him; and so hardly any fair dealing for the peasant is to be expected. The Co-operative Credit Society, established some forty-five years ago, has, from the start, misconceived the real nature of our agrarian problem. No wonder then that it has made no progress comparable to the dimensions of the problem. The Reserve Bank of India, also, has a special Department for Agrarian financing. But that, too, seems not yet to have realised the true nature of the task before the country in this behalf. The linking between the country's Currency and Credit system with the ultimate source of all national wealth remains to be forged; and so it will be no small feature of a proper National Plan, as and when evolved and worked, that sufficient and suitable financing agencies be established, and instruments devised, to familiarise the agricultural producer with the mysteries of finance, the uses of credit, and the aid derivable from a proper banking organisation devised and operated specifically for his needs.

#### **Freedom of Trade in Planned Economy.**

In the system developed hitherto, as remarked already, the basis accepted is that of individual initiative and freedom of enterprise in marketing. For a Scientific National Plan of a comprehensive, all-embracing character, such freedom may be incompatible. The Plan itself may be wrecked, if the individual producer, whether of foodstuffs, raw materials of industry, or cattle produce, is left free to seek his own interest, and only his own interest, in disposing of his produce. He must realise, that his produce is part of the aggregate national production, which will have to be distributed so as effectively to promote the aims of the National Plan. He must understand that the first claim upon his produce would be that of the national industry or local consumption in the country

itself. He must know that scientific planning of the entire national economy would have to be based on the principle, primarily, of **production for use and not for exchange**. He must learn that in the aggregate interests of national economy, we shall have to avoid needless transportation of the same goods; minimise the intervention of the middleman; and regulate the use of credit, so as to guard against inflation, and at the same time provide a fair return for his labour. Marketing, or Exchange, more than any other sector of our national economy under the Plan, would, accordingly, have to be socialised, and brought under the effective control, regulation and management by some public authority. And that authority ought not to be satisfied merely by certifying quality, or discovering outlets, at home or abroad. It must see where each item would be most useful; it must see that each item is made available as and where and when it is most wanted; and so likely to be most serviceable in working the National Plan. It must adjust transport costs; ensure credit facilities; provide against risks of transit, fire, or theft; it must, finally minimise the burden of the middleman. Then only will the maximum advantage of the individual producer and of the country as a whole be achieved.

K. T. Shah.

## Report of the Sub-Committee.

The Hon. Gen. Secretary,  
National Planning Committee,  
Bombay.

Sir,

We, the members of the Sub-Committee on Rural Marketing and Finance, beg to submit our report which is enclosed herewith.

The names of the members and the terms of reference are given on the preceding page.

The first full meeting of the Sub-Committee was held in Bombay on September, 4, 1939. The terms of reference were discussed and clarified. Members undertook to submit notes dealing specially with those terms in which they were most directly interested.

The full Sub-Committee met for the second time, also in Bombay, on December 17. The Secretary of the sub-committee had prepared "A Provisional Outline of the report on Rural Marketing and Finance". This preliminary report was read and approved at the meeting. A copy of it will be found at the end of the present report.

The full sub-committee was called for the third time on March 25, 1940 to discuss the Draft of the Final Report which had been prepared by the Secretary. In the course of the week March 25,—March 30, the sub-committee held five sittings to discuss the Draft.

Apart from these three full meetings of the Sub-Committee some members have occasionally met in Bombay to hold informal discussions.

The Report, as it now stands, practically covers all the terms of reference allotted to us. Nevertheless, we intend to submit at a later stage a short supplementary report on (a) Rural Finance—Need for Structural Changes, and (b) Co-operation—its Present Position and Future Possibilities in the Field of Rural Marketing and Finance. In a special note attached to the Report we have indicated the questions which we propose to investigate and also the nature of recommendations which we are likely to make.

As was pointed out in para 7 of the preliminary report, referred to above, rural goods do not constitute one homogen-

eous group. They are so numerous and so varied in character that each commodity or group of commodities may be expected to reveal difficulties which would apply only to that commodity or group of commodities. We, therefore, arrived at a workable classification of the whole range of rural goods. As we mentioned there, in order to do full justice to the problem of rural marketing, one should investigate separately the position of each commodity or group of commodities taking into account the regional variations which are bound to be pronounced in a vast country like India.

In the Report which we now submit, special problems connected with many of these commodities have been touched upon, but in the main we have dealt with questions which are common to most of the categories of rural produce. We have not found it possible to study the specific questions connected with each rural commodity or group of commodities. The time at our disposal was much too short for the purpose. Besides, the data available at present are far from being adequate. Nevertheless, we submit that it would be useful to collect and consolidate whatever data are at present available on the marketing of each commodity or group of commodities. This would render possible a much better appraisal of the present situation with regard to rural marketing, and also indicate the gaps in our knowledge, which are only too many at present, but which will have to be filled up sooner or later as a preliminary to the actual solution of the various problems which crop up in this field. We must, however, leave it to the National Planning Committee to decide if any action should be taken along the lines just indicated.

(Sd.) S. SEN,  
(Hon. Secretary).

PART I  
THE BACKGROUND  
CHAPTER I.

RURAL MARKETING AND FINANCE—  
ITS PLACE IN ECONOMIC PLANNING.

1. The overwhelming preponderance of agriculture in the economic life of India is obvious even to the most casual observer. The introduction of modern factory industries into this country can no doubt be traced back to the middle of the last century. But under a *laissez-faire*-ridden Government rigidly wedded to a policy of free trade, industrialisation was bound to be a painfully slow process. The last Great War provided, for the first time, effective protection to the struggling home industries: and, by the end of the war, some of them had made appreciable progress. The switch-over to a policy of discriminating protection, though so haltingly, one would almost say, grudgingly applied in practice, accelerated the pace of India's industrial development. Of late the process has gathered further momentum. Indians are becoming more and more industry-minded; and nothing could bear more forceful testimony to this fact than the initiation of the National Planning Committee itself on whose behalf we have undertaken the preparation of this report.

2. Nonetheless, modern industries in this country even to-day are but a mere sprinkling on a vast rural economy. Though the number of workers employed in factories has been increasing, there has been, *pari passu*, an enormous increase of population. Industrialisation has so far not been able to relieve the pressure of population on the land; and the presumption is that, even in the last two decades, it has further grown in intensity. 70% of the total population are even to-day directly dependent on agriculture for their livelihood, and another 10% indirectly derive their income from the same source.

3. The National Planning Committee has boldly set forth as one of its aims, that within a decade we should arrive at "a balanced economic structure in which about half the population would depend on agriculture". The total population of India is at present in the neighbourhood of 400 millions. The percentage of agricultural population cannot be put at a

figure lower than 70. The expected increase of population in the ten years to be covered by the National Plan can safely be estimated at 30 millions. A very conservative estimate would, therefore, require the transfer of 100 millions from agriculture to other occupations in order to produce the "balanced economic structure" referred to above. The magnitude of the task envisaged will be clear when it is recalled that during a period of unparalleled industrial expansion between 1870 and 1914, Germany's agricultural population remained steady while her industries could absorb only the net increase in population, i.e. about 25 millions for the whole period.

4. What we are concerned with just now is that even if 100 millions were transferred from agriculture to other occupations, we shall still have as much as 50 per cent of the population dependent on agriculture; and, with a population growing from year to year, this percentage will give us a higher absolute figure. In other words, however rapid may be the process of industrialisation, agriculture will, for generations to come, remain by far the largest single industry in this country. And, however, much we may modernise agriculture, the per capita distribution of cultivable land is bound to remain very small, with the result that small-scale farming will predominate, unless, of course, revolutionary changes take place and the villagers are some day successfully initiated in the art of collectively undertaking agricultural operations.

5. Consumption is the be-all and end-all of all production. In a country which is and which is bound to remain, so overwhelmingly agricultural, the importance of a rational system of marketing the produce of the land, cannot be overestimated. In fact, we are emphatically of the opinion that whatever plan the National Planning Committee may ultimately submit, its actual realisation will, in various ways, directly depend on the successful solution of the problem of rural marketing.

6. The objective aimed at by the N.P.C. has been clearly formulated in paragraphs 10-13 of the "Note for the guidance of Sub-Committees" (Vide Red Book of the N.P.C., pp. 79-80). "The fundamental aim to be kept in view is to ensure an adequate standard of living for the masses. An adequate standard of living implies a certain irreducible minimum plus a progressive scale of comforts and amenities.....an approximate estimate puts the average annual income per capita at Rs. 65. This includes the rich and the poor, the town-dweller and the villager. The average of the villager is estimated to be somewhere between Rs. 25 and Rs. 30 per

annum per capita. This implies not only a considerable deficit in food supply but also in the other essential requirements of human existence. The national income must therefore be increased greatly during the next ten years to ensure an irreducible minimum standard for everybody. In order to secure this minimum standard not only will it be necessary to increase production, but also to bring about a more equitable distribution of wealth. A really progressive standard of life will necessitate the increase of the national wealth five or six times. But for the present the minimum standard which can and should be reached is an increase of national wealth of between two and three times within the next ten years. It is with this object in view that we should plan now".

7. What are the implications of Rural Marketing and Finance in this context? Firstly, marketing difficulties are often a serious hindrance to an increase in the volume of production, for there is no sense in producing goods unless they can be profitably marketed. Secondly, unless production and marketing are correlated through some rational scheme, the income of the village produced can never be at a maximum, for there would then be no guarantee that he would produce just the crop or just the type and quality of the crop, which would fetch him the highest price. Thirdly, in the absence of such correlation consumers also will suffer, as the commodity demanded by them may not be available; or its type and quality may be different; or, again, its supply may be unduly restricted. Besides, the more efficient the system of distributing goods, the lower will be their prices and, consequently, the greater will be the benefit derived by the consumer from a given money income. Fourthly, the present system of marketing is wasteful and there is considerable scope for economy. Such savings, taken in isolation, may not look impressive, but when pooled, they reach an imposing total. To stop waste, it is well to remember, is also to add to the effective wealth of the country. As Dr. Gregory puts it, it is possible "to achieve very considerable aggregate results by unspectacular methods". Fifthly, the development of industries for which other sub-committees will make their recommendations, will largely depend on a smooth and regular supply of the required raw materials; and this again presupposes an efficient system of marketing. Lastly, and here we come to the crux of the problem, the price which a village producer at present gets for his crop is abnormally low because the services involved in the process of distribution, e.g., those of middlemen, railways, banks, are disproportionately expensive. By far the biggest task in rural marketing is

to evolve a system under which the costs of these services will be brought down to an irreducible minimum, so as to ensure for the primary producer the maximum share in the price paid by the ultimate consumer for his produce. This would at once raise his income by a substantial margin to which, incidentally, he is also morally entitled, and thus provide him, at least partially, the wherewithal to work out his escape from the vicious circle of low income and chronic indebtedness, which has literally spelt ruin on him.

8. From what has been said it is abundantly clear that, in any scheme of economic reorganisation of India, rural marketing is bound to occupy the key position.

## CHAPTER II

### RURAL MARKETING AND FINANCE: PART OF A WIDER PROBLEM

9. Cause and effect are not seldom relative conceptions. In economic life especially, it frequently so happens that what is cause in one particular context, becomes an effect in another, and vice versa. It has been argued above that rural marketing is the crux of the economic problem of Rural India, and that on it will very largely depend the prosperity of the farmer. It can, on the other hand, be argued almost with equal force that the great stumbling-block in the way of evolving a more efficient system of distributing rural commodities, which would perceptibly raise the share of the farmer in the price paid by the consumer for his crop, is his incredibly low income. Because his income is so low, his credit-worthiness suffers, so that he has to pay a prohibitive rate of interest for his loans, if he gets them at all. For the same reason his staying power is almost next to nil and, being perpetually hard-pressed for cash, he has to dispose of his goods in a manner which is least favourable to him. He has no resources to send his produce to a relatively distant market where better prices prevail and/or to wait till the seasonal glut subsides and the prices show an upward trend. In other words, the Indian farmer is poor primarily because the system of rural marketing is defective, and the system of rural marketing is defective because, above all, the farmer is so poor. Poverty breeds poverty. Its effects are cumulative.

10. It is, in our view, of overwhelming importance to bear this truth in mind. The problem of rural poverty cannot be tackled in a piecemeal fashion. The attack has to be launched simultaneously in more than one front. Any step, calculated to raise the money income of the peasant, will also tell in developing a better marketing organisation. Our sub-committee is not directly concerned with an investigation of all the channels through which the income of the villager could be augmented. We can therefore offer only a few general observations on some relevant points.

11. Every text book on Indian economics contains a list of the evils from which the villager suffers. The causes of rural misery are not unknown. The diagnosis has, in fact,

been done over and over again. Effective remedies have also been suggested in many official and non-official publications. If, in spite of it all, so little headway has been made so far in the actual solution of the problems confronting us, it is in the main because little action has been taken to carry them out in practice. A bolder initiative and much more energetic action than has hitherto been the case are our first desiderata.

12. Leaving aside such a general question as relieving the pressure of population on land, and the more technical one of rural marketing which will be examined in all its aspects in the subsequent chapters, there is, even within the present framework of the village economy, considerable scope for improvement which will result in an appreciable rise in the income of the villager. For example, even if we leave out of account such revolutionary proposals as collectivisation of land, the consolidation of holdings can go a long way in counteracting some of the glaring evils of excessive sub-division and fragmentation of land. Experience in certain parts of India, particularly in the Punjab, has convincingly shown both the feasibility and the advantages of such consolidation.

13. A country like India, with its vast agricultural population, is bound to remain a country of small-scale farming ~~par excellence~~. It has been pointed out before, that industrial development with the consequent employment of a much larger number of workers in factories cannot by itself create those conditions in which large-scale farming will become a feasible proposition, although such industrial development is indispensable in order to avoid a further deterioration of the position. Now, in a country where small-scale farmers seem to have come to stay, there ought to be a correspondingly strong emphasis on intensive cultivation. Yet just in this respect India remains one of the most backward countries of the world. Although the small size of holdings coupled with relatively cheap labour necessarily imposes restrictions on the machinery which could be economically used by the Indian farmer, there is still scope for a good deal of improvement upon the tools and implements now used. Besides, consolidation of holdings, as suggested above, will further widen this scope. A proper selection of the crop grown based on a close study of the relative profitability of a number of crops and a similar selection of the right variety of that crop, if accompanied by adequate care to select the best and uniform seeds for growing that variety, will considerably increase the value of the produce raised by the farmer. It is in this context that the question of correlation between marketing and agricultural production becomes important. The economics of manuring

has been neglected too long in Indian agriculture. Let us also remember that of all the important agricultural countries of the world, India is perhaps the only one which does not make any mentionable use of night-soil for manuring purposes. A golden manure, says Mahatma Gandhi, worth lakhs of rupees thus runs to waste year after year.

14. In irrigation much has no doubt been done, but very much more still remains to be done. In an agriculture notoriously dependent on a precarious monsoon, the importance of water supply cannot be too strongly stressed. The damage to crops caused by excessive or deficient rainfall may safely be put at crores of rupees, and the average yield per unit of land which is appallingly low in this country, is still further lowered by this factor. The major part of this loss could be prevented if human enterprise were to rectify the caprices of nature. A proper system of irrigation coupled with river training would open up new vistas of possibilities in our agriculture. Uncultivable waste lands could be brought under the plough in many cases, and the land already cultivated could be made to yield a better and richer harvest. In this connection minor works of irrigation such as wells, tanks and dams, should not be overlooked. They already play a vital part in our agriculture; and their utility could be immensely increased by a properly co-ordinated plan for their extension. To take one example, a careful investigation carried on by the Sriniketan Institute of Rural Reconstruction, Viswabharati, has shown that, if the silted-up irrigation tanks in the western districts of Bengal were re-excavated, the average yield of rice per acre could be increased from 12 maunds per acre to about 20 maunds per acre. In other words, with comparatively little trouble the income of the cultivator could be raised by 50 per cent. Such possibilities, we have reasons to believe, exist in many other parts of India.

15. Scientific horticulture is still in its incipient stage in India. Animal husbandry coupled with dairy products holds out great promise. The same remark applies to a number of processing industries. Lastly, cottage industries, if judiciously selected and properly directed, would provide another source from which the farmer could supplement his income. The period of enforced idleness may no doubt be curtailed if the various measures hinted at above, were carried through, but it is very unlikely that it could be completely wiped off. The question of some subsidiary occupation is therefore bound to remain urgent for a long time to come; and such occupation will have to be provided by some kind of cottage industries.

16. We are aware that all the questions raised above have been entrusted to other sub-committees for investigation. The point we are trying to emphasise in this chapter is that, while for the sake of convenience different sectors of rural economic life have to be considered separately, in reality they are interdependent; and the degree to which an attack in one front will be successful, depends very frequently on what is done simultaneously in other fronts. The ultimate objective of the national plan is to raise the standard of living or the level of income of the whole population. Rural marketing is only one of the factors, though a very important one, on which the realisation of this aim will depend. By an efficient system of rural marketing we can add substantially to the income of the peasant, but there are other avenues through which a similar, sometimes even a greater, increase in income can be brought about. The extent to which, these other avenues are successfully exploited, will largely determine the extent to which a better marketing organisation can be brought about, all the more so because, as we shall see later, subsistence farming has led, in a large number of cases, to a unified control of the operations of production and marketing by the money-lending class.

17. The need for a well-planned, all-round attack on the various problems of rural life has in recent years been enhanced by the legislation for tackling the problem of rural indebtedness. In our opinion it had become urgently necessary to lighten the load of the farmer's debts. The legislation passed with a view to scaling down the debts which had been piled up for generations, is also sound in principle. At the same time we are strongly of the opinion that such legislation by itself cannot be more than a palliative, and a permanent amelioration in the economic life of the farmer can be brought about only by a rise in his income. The fundamental cause of rural indebtedness is that the farmer, with his present level of income can hardly make both ends meet even in a normal year, so that a slight rise in his expenses owing to illness, etc. or a slight fall in his income owing to a crop failure or a fall in his produce, compels him to have recourse to the money-lender. Once involved in debt he has, of course, to pay interest and capital from his slender income with the result is that he tends to get more deeply into debt. Recent debt legislation has shaken the confidence of the money-lending class to such an extent that in many cases it has become difficult to borrow even for productive purposes, no matter how high a rate of interest may be offered. There is thus all the greater reason why all possibilities of augmenting and supplementing

the income from the cultivation of land should be fully explored and exploited.

18. Luckily, there is a growing appreciation of the needs for an all-round attack on the rural problems. This is reflected in the emphasis which is now laid on the multi-purpose co-operative societies. It cannot be denied that in the past too much concentration on credit discredited the co-operative movement in this country. More and more people are coming to realise that cheap money alone cannot lead us very far, and that money cannot in the long run remain sufficiently cheap unless there is a real improvement in the credit-worthiness of the farmer, that is, unless steps are taken to raise his income. If the co-operative movement is to become a potent factor in the rehabilitation of the economic life of rural India, it will have to give up its almost exclusive concentration on credit, and bring within its ambit operations relating to production, marketing of village produce, etc.

### CHAPTER III

#### THE PRESENT SYSTEM OF RURAL MARKETING

19. Remedy presupposes diagnosis. Without a full knowledge of what is, we cannot recommend what should be. This chapter will accordingly deal with the present system of rural marketing, *with the existing ills and their causes*.

20. We have spoken above of the present system of rural marketing. In fact, it would have been much more appropriate to speak of the present lack of system in this field. As in other spheres of India's economic life, *laisses-faire* has enjoyed an unusually long lease of life also in marketing. Control, regulation, guidance have been conspicuous by their absence. There is a jungle of rules and regulations, written or unwritten, of weights and measures. It would be futile to attempt to bring them to a formula which would be uniformly applicable to the whole of India. The present state is the resultant of the blind operation of various socio-economic forces: rapid growth of population, progressive ruralisation, gradual break-down of the village economy and so on and so forth. We have enough of modern industries to upset the fine balance which every village had struck between agriculture and cottage industries, yet we have not even approximately enough of them to arrive at a new one. We have enough of communications to break down the isolation of village life, but certainly not enough to bring about a new equilibrium and turn the village into a unit of a larger and well-integrated system. The farmer has been brought into contact with the world market, yet there has been no commensurate change in his moral and material equipment. We are, in short, passing through the painful stage of transition from the medieval economic system to a modern one. The process is the more painful because we have all the while been drifting from the one to the other. The *raison d'etre* of economic planning, as undertaken by the N.P.C., is above all to expedite this process and arrive at a new equilibrium of social and economic forces with the minimum of suffering and waste. What holds good for the whole Planning Committee, also applies to its part. The main problem before our sub-committee is to recommend steps for evolving a system out of the present systemless state in rural marketing.

21. The difficulties from which the village producer suffers in marketing his produce can be traced back to the

dislocation caused by the impact of modern industrialism on a rural economy. More specifically, they can be brought under three inter-connected heads: The farmer, in general, sells his produce at an unfavourable place, and at an unfavourable time; and usually he gets very unfavourable terms. Place, time and terms—these three factors provide us with the clue for an understanding of the existing position.

22. The nearest place where a farmer sells his produce is his own village. "It has, we think, been established that, where the cultivator is in a position to dispose of his produce in a market, however limited its scope and badly organised its character, he obtains a much better price for it, even when he disposes of it in his own village."\* The effective price realised by the cultivator is further reduced by malpractices which are, as rule, more common in the village, than in the market. It is, therefore, important to know the exact nature of these malpractices, the causes of village sales and the relative proportions of sales in villages and sales in markets. Let us consider these points in the reverse order.

23. In the village the produce is sold to the *Sowcar*, *Bania*, landlord, prosperous tenants, *Beparis* and agents of wholesale merchants. The statistical information available on such sales is unfortunately very meagre. But it cannot be doubted that village sales occupy a very important place in the marketing especially of food-crops. The following figures will throw some light on the question. In the U.P. 30 p.c. of the wheat grown is sold in the village, in Lyallpur the percentage is 52, while in Attock District (Punjab) it is as high as 98. As for paddy, 89 p.c. is sold in the village in Bihar, 72 in Bengal and 89 in Madras. In the case of cotton, the village sales amount to 79 p.c. in Sind, 81.4 in Khandesh, 51 in Central Gujrat, 80.5 in the Punjab. With regard to the sale of linseed it has been estimated that the All-India average of the percentage taken to the Market for sale by cultivators themselves is only 20 as against 40 p.c. sold by landlords and 35 p.c. by *Beparis*. These are only a few stray examples, but we have strong reasons to believe that a considerable part of every important crop in India is sold in the village.

24. The most important cause for the high percentage of produce sold in the village is, without doubt, the indebtedness of the producer. Among cotton growers 71 p.c. in North Gujrat, 82 in middle Gujrat, 78 p.c. in East Khandesh and 94 p.c. in Sind have to borrow; and the percentage of loans taken from the *Sowcar* amounts to 90 in Gujrat, 65 in Middle Gujrat, 53 in East Khandesh and 77 in Sind. In the Attock District of the Punjab 98 p.c. of the wheat is sold in the village

\*Report of the Royal Commission on Agriculture, p. 383.

by cultivators, 88 p.c. of whom are in debt. A cultivator who has to borrow heavily for growing a crop, often mortgages it in advance, so that the sale of the produce, which is hardly more than a mere formality, takes place almost in his fields as soon as the crop is harvested. In other cases where the crop is not formally pledged, it has to be disposed of almost immediately after harvest in order to pay off the debts to the Sowcar.

25. In the last chapter we have broadly indicated the causes of rural indebtedness. Any factor which lowers the income of the cultivator or enhances his expenses tends to increase his debt. Nevertheless, had there been suitable credit institutions for advancing loans to him at a reasonable rate of interest so that he might raise his crop and sell it as a free agent in the best market, he would realise a higher value for his crop and his financial position would correspondingly improve. We shall deal with this aspect of rural marketing in Part V of the Report.

26. The second important factor which is responsible for the high percentage of village sales is the unsatisfactory nature of communications with the nearest market. With bad roads transport costs tend to become heavier. At times the producer has no cattle and carts of his own by which he could transport his produce to the market-place. In sugar-cane growing areas the animals are either engaged in crushing cane just after the winter paddy harvest, or in transporting cane to the mills; so that, the supply of carts for the transport of other kinds of agricultural produce is small. In irrigated tracts in the west of the United Provinces, where cotton or fodder crops are sown just after the harvesting of the Bari or Spring crops the grower has practically no time to go personally to the market.

27. It must, however, be admitted that these are marginal cases where the cultivator does not labour under any of the disabilities mentioned above, and would normally have taken his produce to the market had not the chaotic conditions prevailing there deterred him from doing so. As the All-India report on wheat marketing points out (p. 44), when a wheat-grower takes his produce to the market, he is at once confronted by a host of agents: the *Kachha arhatiya* and his tout, the *dalal*, the *rola* who dresses his wheat, the weighman, the *charhava* who fills the scale pan, the arhatiya's cook and a horde of beggars of every description all regard themselves as entitled to a share of his produce. "It is not surprising if many cultivators rather than face this appalling array, prefer

to sell their grain to the *banya* or the itinerant *ghumars* and *tolis* who come round the villages".

28. Before turning to an analysis of the conditions prevailing in marketplaces, let us see in what respects the cultivator stands to lose if he sells his produce in his village. Firstly, because, as mentioned above, most of the growers who sell their produce in the village are heavily indebted, their bargaining power as against the creditor-buyer is almost nil. They have very often no other alternative but to accept the terms offered to them by the Sowcar. There is not the slightest doubt that these terms are very unfavourable to the grower, as the Sowcar is naturally tempted to take full advantage of his helpless state. Had the grower been a free economic agent, he could then in the majority of cases, realise a higher net return for his crop by disposing of it in the nearest market, though the conditions prevailing there are by no means ideal. Secondly, there is a strong presumption that abuses in weights and measures are more frequent in the village than in the market. Lastly, as in the case of unregulated markets, there are, also in the village all kinds of deductions and allowances which further reduce the net price realised by the cultivator.

29. Let us now turn to the so-called markets, that is to say, those which do not come under the regulated category, and which still constitute the overwhelming majority of the total markets in India. There are a few illuminating pages in the Report of the Royal Commission on Agriculture, where attention has been focussed on the chaotic conditions prevalent in these markets. Twelve years have passed since that Report was published. In the meantime a beginning has been made and some legislative steps taken to improve the position. On the whole, however, the picture which was drawn at that time faithfully reflects the state of affairs in Indian markets even to-day. It would, therefore, not be out of place here to enumerate the weaknesses which the Commission pointed out.

30. As examples of the disorganised state of marketing agricultural produce, attention was drawn to the marketing of cotton in Khandesh, jute in Bengal and rice in Burma. But complaints flowed in from all provinces about the disabilities under which the cultivator had to labour in selling his produce in markets. These disabilities could be summed up as follows:—

(a) Scales and weights are manipulated against the seller. This practice is rendered easier by the fact that there are no standardised weights and measures, nor any provisions for regular inspection.

(b) There are all kinds of arbitrary deductions for religious and charitable purposes and for other objects. The burden falls entirely on the seller and he has no effective means of protest against such practice.

(c) Large quantities are taken away from the produce of the cultivator as "samples". At the time the Commission reported, these amounted to as much as five to eight seers per cart of cotton in Khandesh. The cultivator is not paid for them even when no sale is effected.

(d) Bargains between the agent who acts for the seller and the one who negotiates on behalf of the buyer, are made secretly under a cloth so that the seller remains ignorant of what actually takes place.

(e) The broker whom the cultivator employs is more likely to favour the purchaser with whom he comes into contact almost daily than the seller whom he only sees very occasionally. This tendency becomes all the more pronounced when, as it frequently happens, the same agent works for both parties.

(f) When disputes arise, the cultivator has no means of safeguarding his interests. To take an example, in Khandesh, after the preliminary negotiations in the market-place are over, the cotton cart is removed to the ginning factories where weighment and often the real bargaining takes place. Allowances in the form of reductions in price and/or concessions in weight are frequently claimed on the ground that the cotton is not up to sample, or is damp or has a low ginning percentage. The cultivator who has come all the way and borne the costs of transportation has at this stage no other option but to accept the terms. "The enquiries made by the Indian Central Cotton Committee showed that greater use of the markets is not made by cultivators because of the disputes which arise after weighment has commenced in regard to the rate and because of arbitrary deductions from the weight".

31. From the All-India marketing reports it is clear that these anomalies persist even to-day. In para 27 we have listed the various deductions to which a wheat grower has to submit when he brings his produce to the market. As regards the incidence of these charges, the Report states further that "in the Colony markets in the Punjab these are as low as Rs. 2-1-3 per Rs. 100; but in the central and eastern markets of the United Provinces the total charges may amount to as much as Rs. 7-13-0 per Rs. 100". The great objection to these market charges, as the Report rightly points out, lies not only in their multiplicity but also in the fact that they are not

clearly defined and specified, so that in every market each separate charge can and in fact is exaggerated in individual cases. The All-India Reports on Linseed and Tobacco tell more or less the same story.

32. The element of time is an important factor and this for a double reason. The marketing possibilities of perishable commodities such as vegetables and fresh fruits depend very largely on the rapidity with which they can be transported to the market place. Communication is therefore of the utmost importance in this case. As regards non-perishable commodities, the price to be realised by the cultivator depends among other things on when his produce is marketed. The majority of the Indian cultivators sell their produce within a very short time after the harvest, with the result that the market is glutted and the prices go down considerably. As soon as the seasonal congestion is over, there is a rise in the prices. The cultivator who sells his produce at the time of the harvest depression, naturally fails to realise the best price. If it were possible for him to distribute the supply judiciously over time so as to mitigate, if not avoid, the seasonal fluctuation, the return for his crop could be increased by a fair margin.

33. Why, then, does the cultivator sell his produce at the harvest time instead of waiting for a better return? The answer to this question should be clear from what has been said in the preceding chapter. Most of the cultivators are hard pressed for cash to meet the claims of their creditors and to pay off rent and other charges. Even when they know fully well that by holding up the crop for a few months, they would be able to secure a better net return, they have usually no other alternative but to market the produce immediately in order to meet their urgent liabilities. Cases are by no means rare where a cultivator, in dire need for cash, sells his wheat or rice at the height of the season when the prices are very low, but is compelled, after six months or so, to buy, perhaps with borrowed money, good grains for his own consumption and even seed for cultivation.

34. The vital problems connected with rural marketing have, we believe, clearly emerged from what has been said in this chapter. Better and cheaper communications are essential not only for replacing village sales by sales in the market, but also for various other advantages which they offer. The next Part of the Report will, accordingly, deal with "Communications". Order will have to be evolved out of the present chaotic state in the markets. Part III will deal with the position and prospects of "Regulated Markets". Part IV will be devoted to a consideration of "Some Technical Factors" in the

marketing of agricultural produce. In Part V which will be devoted to Rural Finance we shall specially deal with rural warehousing and marketing finance. In Part VI some concluding remarks will be offered, particularly as to the way in which the work of the present Sub-Committee could be continued in future. In a Supplementary Report, to be submitted later, we shall deal with the question of certain structural changes in the present system of rural finance as well as with the present position and future possibilities of co-operation in this country.\*

\*This supplementary Report has not yet been submitted.—Editor.

## CHAPTER IV

### WHAT IS THE OPTIMUM PRICE FOR CULTIVATOR'S CROP?

35. It is now abundantly clear that there is considerable scope to improve the return which a cultivator receives for his crop, and one of the main objects, if not the main object, of our Sub-Committee is to recommend steps for a full exploitation of this scope, so that his income may be correspondingly higher. Is it, however, possible to define, theoretically, the price which one ought to try to secure for the cultivator? Are there limits up to which one should go and beyond which one should not, in securing a better return for him? Is there any place for the middleman in the ideal marketing system, or should he be altogether eliminated? Lastly, what should be the exact function of the State in such a system and where should the line of demarcation be drawn between private and State initiative? The questions raised are by no means irrelevant; but they are highly complicated; and it would hardly be possible to deal with them here in all their subtleties. A few broad considerations will, however, serve our present purpose.

36. All production is destined for consumption. The price which the ultimate consumer pays for a commodity is bound to be higher than what is received by the grower. For it is not enough to produce the commodity. It has to be brought within the reach of the consumer. The margin between the price paid by the consumer and that received by the producer is accounted for by the cost of distribution. The more efficient is the marketing system, the narrower becomes this margin, and vice versa. In India this margin has tended to be unduly wide. The causes have already been indicated. In general we can therefore say that our first objective should be to ensure that the margin between the price paid by the consumer and that received by the producer is at a minimum.

37. Evidently this margin will be at a minimum only when the costs of the services involved in the process of distribution are the lowest, in other words when the profit of the middleman, the costs of transportation by rail, road and water, the banking and insurance charges are all kept at the lowest point. Each of them, however, represents an indispensable factor in marketing. By eliminating any of them we are more likely to stem the flow of goods from the

producer to the consumer than to stimulate it. This is taken for granted as far as the agencies for transportation and finance are concerned, but as for the middleman people are not seldom inclined to think of eliminating him altogether. In view of his past record in this country, it is not difficult to understand this attitude.

38. Before, however, we turn to indicate the actual place and burden of the middleman in the marketing organisation, there is another point which deserves consideration. In Western countries and to a certain extent also in India, every new facility offered in distributing goods has been welcomed by the consuming class, and there has been a tendency to ask for more. For example, the consumer of tea used to get in bulk from the grocer, then tin and paper packets were introduced and now he prefers home delivery. When such services multiply, the cost of distribution rises; and with it there is a widening of the margin, referred to above, between the price paid by the consumer and that received by the producer. That does not, however, invalidate our thesis that the efficiency of the system of distribution is to be measured by this gap, as long as the cost of these new services is also at a minimum. The margin in this case widens not because the producer gets less than his share, but because the consumer pays more, the extra payment being the price for the extra services enjoyed by him.

39. With every increase in such services it is but natural that more people should be drawn into the distribution business and the chain of middlemen should tend to become longer. In many cases what may be called middlemen's industries have grown up for making the produce portable and presentable. When, however, we speak of the burden of middlemen in our agricultural marketing, we have something entirely different in mind. It is not a lengthening of the chain of middlemen as a result of the introduction of new services and the addition, so to say, of new utilities to the goods. We have in mind the presence of too many hands for the primary operations of assembling the agricultural produce, all of whom are anxious to scrape off some profit, the ultimate result of which is a reduction in the share of the cultivator.

40. In every rational economic system the middleman has an essential function to fulfil. Collection of produce, its distribution, and the adjustment of supply to demand between locality and non-locality cannot be dispensed with by any system if it is to operate to the maximum advantage of all classes. These are, however, complicated and delicate functions, the fulfilment of which calls for skilled services and

specialised knowledge. There is at least a strong presumption that these services could be best rendered by those who spend their lives in business. In certain respects India needs such services perhaps more urgently than other countries. Communications here are at times extremely bad so that assembling becomes a difficult matter. There is a large number of very small cultivators who lack financial resources and storing facilities to attempt a regulation of their selling in accordance with the state of the market. Both in quality and purity their produce, when marketed, is far from being in an ideal state. Unless middlemen step in to undertake these, it would be very difficult for the cultivator to sell his produce in many cases; and it is not at all certain, that, in the absence of other institutions, he would be the gainer. If the cost of distributing agricultural produce is very high in this country, it is well to remember that the unsatisfactory conditions mentioned above are in no small measure responsible for it. It is also worth noting that in recent years there has been an increasing competition among middlemen themselves, and this factor has naturally tended to lower their profit.

41. Public opinion, particularly in India, is nevertheless suspicious of the middleman. This is partly due to the fact that the middleman bears no risks incidental to production, such as crop failures or cattle plagues; and yet seems to carry on profitably his own business. Nevertheless there is point in the remark that "public opinion is not fully informed on the costs and the risks incidental to the business of distribution in modern conditions"— We deprecate easy generalities suggesting that every ill from which the cultivator suffers is traceable to the existence of hordes of rapacious and unnecessary middlemen<sup>1</sup>". We therefore fully endorse the view that "the aim of better marketing is not necessarily to displace any unit in the existing machine but to enable that machine to function to greater advantage<sup>2</sup>". Not to eliminate the middleman, root or branch, but to harness him to the system in a more useful manner, not to despise and denounce his services, but to make them more efficient and rid them of all abuses, should be our aim.

42. That patent abuses exist has been unequivocally pointed out in the preceding chapter. The primary collector, who is very often also the money-lender, not seldom succumbs to the temptation of exploiting the helpless state of the cultivator. Some of the practices in the market are tantamount to "common theft", as the Royal Commission on Agriculture

1. Report of the Royal Commission on Agriculture, p. 383.

2. Ibid.

pointed out. There are also too many men to perform the services of middlemen. Bad communications, chaotic conditions of marketing and pressure of life are responsible for the existence of such a large number. The steps recommended in the following chapters will, we believe, lead to an automatic elimination of the superfluous middlemen. Can we not develop co-operative sale societies in such a way as to eliminate the middleman altogether, some might ask at this stage. There is no doubt that some of the functions of the middleman can be taken over by such societies. If, in some cases, it were found possible to eliminate the middleman altogether, and carry on the marketing operations more efficiently through e.g. the co-operative sale society, there is no reason whatsoever why this should not be attempted. In general, we doubt very much if co-operative sale societies could be so developed as to carry on the marketing of all rural goods in India without the support of the middleman at any stage.

43. It is, however, clear that, in a reorganised system of rural marketing, there will not be place for as many middlemen as there is today. As already pointed out, the pressure of life has been one of the main factors, which has bred a superfluity of middlemen. When there are very few avenues open to earn a livelihood, many are tempted to have a hand in the distribution business and thereby scrape together a small income. What will happen to those middlemen who will *ex hypothesi*, be released from their present profession? The surplus number when it is weeded out, will, it may be presumed, have to be dealt with in the same manner as the surplus population which now crowds in our agriculture. The Planning authority, one of whose major functions is to open up new avenues of productive employment, will have to bring about such a redistribution of the population among the various occupation groups, as would redound to the greatest advantage of the country as a whole. It follows that any excess of population over the optimum number at present employed either in the actual cultivation of land or in the distribution of the produce from land, will have to be absorbed in other spheres where the social marginal utility from their work will be higher.

44. So far our argument has proceeded on the assumption that, by making the machinery of distribution work more efficiently, we can and should secure a better return for the cultivator. Can we not go a step further and secure a better return for him by controlling the market price itself? We have spoken above of ensuring for him the maximum share in the price paid by the final consumer. Can we not determine what price the consumer should pay and try to keep it at a

higher level so that the grower would automatically realise a higher value for his crop? Now, we all know that, particularly since the last great depression, many attempts have been made to bring about a rise in the price of certain commodities. Wheat, coffee, tea, sugar, rubber, tin, copper were some of the obvious examples of controlling market on an international scale. In the closed or semi-closed economic systems (Russia, Germany, Italy) similar attempts have been made on a national scale, and a very large number of commodities have been brought within the range of price control.

45. What should be our attitude in this regard? To start with, there are degrees of planning. In times of depression even a relatively free economy tends now-a-days to move a long way towards a planned one. In times of war this tendency is far more pronounced. Much will, therefore, depend on the degree of planning envisaged by the National Planning Committee. We are, in general, of the opinion that, when a given objective can be realised through the free play of economic forces, it is better to leave things there. The onus of proof should lie better on those who would plan.

46. Further, in planning for the realisation of a particular objective it is wise not to leave out of account the operation of natural economic forces. For example, if the price of a commodity were to be fixed at a level which would bear no rational relation to its supply and demand, then (a) it would be difficult to maintain the price at that level, and (b), if actually maintained, it would involve disproportionate sacrifice in other directions. The fundamental reason why many of the international schemes for revalorisation have come to grief, is that prices were fixed at a level at which an expansion of production was profitable, which in its turn pushed down prices and frustrated the schemes. If the price of jute were to be fixed at, to take an arbitrary figure, 50 rupees a maund, the cultivation of jute would, under the present circumstances, become so profitable that it would oust all alternative crops e.g. rice. The area under jute cultivation would enormously increase; and with the consequent rise in supply its price would, sooner or later, be brought down. If in spite of it all, the cultivation of jute were restricted by stringent measures such as police control, two things would happen: with the price of jute at such a high level, there would be a strenuous search for substitutes, its demand would flag and thus bring about a fall in its price, while the gain accruing from higher prices would be largely offset by the sacrifice resulting from the restriction of output. For, *ex hypothesi*, many cultivators would not be allowed to grow jute even when its cultivation would remain more profit-

able than that of an alternative crop. This arbitrary example shows that there are limits which even a planning authority has to obey if it is to remain faithful to its very *raison d'être*, namely, to secure the maximum well-being of the people.

47. We do not, of course, imply thereby that the attempt at the restriction of jute production and the control of jute price is wrong in principle. On the contrary, we are firmly of the opinion that there are extraneous factors whose intervention has been hindering the free play of economic forces with consequences detrimental to the interests of the jute grower; and the sooner these factors are removed, the better will it be from the point of view of the cultivator and of the country. In a modern economic system where interest groups have been strongly organised, the greatest justification for planning lies, paradoxical as it may sound, in not ignoring economic forces, but in ensuring that very free play of economic forces, on which the liberal economists depended for the realisation of their social objective.

48. There may arise occasions when it may be at least the lesser evil to attempt a control of the market in order to bring about a rise in the price of a particular commodity. In India sugarcane during the height of the depression provided an example of this nature. Specific cases will, however, call for specific remedies. It is not possible to prescribe a general formula which would be applicable to all cases at all times and places. From its very nature it will be a task of permanent official bodies to study the peculiar constellation of forces in each case and recommend suitable steps. It follows that price control and revalorisation are subjects which cannot be fruitfully dealt with by our-Sub-Committee. Besides, it is a cardinal principle of economics that: what yields greater utility should have precedence over what yields less utility. As long as there are safer and surer methods of helping the cultivator, it would, to say the least, be premature to think in terms of revalorisation and price control which are fraught with heavy risks and which are often more alluring than really beneficial.

49. How to make the machinery of distribution more efficient, that is our immediate concern. We shall define the optimum price for a cultivator's produce as that price which he realises when that machinery works with the maximum efficiency. It may, in some cases, require the complete abolition of the middleman, but such cases, we believe, are likely to be rare. It implies, however, that there must not be more middlemen than are necessary and that these middlemen

should be as efficient as possible. The same remark applies. *mutatis mutandis*, also to the agencies for the transportation of goods and to the institutions which finance or will finance marketing operations. Lastly, it is the function and also the responsibility, of the State to intervene whenever such intervention is called for in order to increase the efficiency of any of the component elements involved in the process of distribution.

## PART II

### COMMUNICATIONS

#### CHAPTER V

##### COMMUNICATIONS AND RURAL MARKETING— RAILWAYS

50. The need for improved communications has been rightly stressed in all schemes for rural reconstruction. The backwardness of the village is due in no small measure to its isolation. The ever-widening gulf between the town and the country, and the concentration of the elite in the town has to be largely attributed to the difficulty of communications. Besides, a village which is linked up with a town by an arterial road, imbibes something of the spirit of progress. Its stagnant waters are stirred. It becomes more alive to its moral and material needs. Gradually the dynamic forces of modern times are introduced there and the village begins to shed its obsolete methods and habits. Better roads stimulate not only the flow of goods, but also the flow of ideas.

51. Even in the more restricted sphere of rural marketing, communications are of vital importance. Let us briefly note the intimate connection between the two:—

(a) The high percentage of village sales is, as has been mentioned before, at least partly due to bad communications. If these sales which operate to the disadvantage of the producer, have to be done away with, improved communications are essential. However well-regulated the market may be, the benefit to be derived by the producer from its existence will vary directly as the facility to transport his goods there.

(b) Better communications mean lower transport costs, and, the market price for a commodity remaining the same, the share of the producer increases. There are cases where a producer is now left at the mercy of the local dealer who alone has a bullock cart at his disposal to carry his produce to the nearest market. In such cases, it would be futile to expect that the grower would receive the best price for his produce.

(c) The present level of transport costs in this country is very high. It reflects the inadequacy of transport facilities,

and is mainly responsible for the high level of inter-regional price differences which would be unthinkable in Western countries. Such price differences are disadvantageous both to the producer and the consumer. For an embarrassingly large supply in one place keeps the prices abnormally low while at the same time there is a substantial margin of unsatisfied demand for the same commodity in other places. The greatest advantage of good communications is that, in combination with efficient marketing arrangements, it brings about an equalisation of prices for particular commodities throughout the country. In other words, the adjustment of demand and supply takes place over a wider area which favours a better division of labour, which, to use Adam Smith's well-known dictum, is conditioned by the extension of the market.

(d) Such equalisation of prices over a wide area when coupled with sound marketing arrangements has a favourable reaction on the price which the average cultivator receives. New markets are opened up for his produce, and this element of competition between one place and another strengthens his position.

(e) The element of time is an important factor in securing a better price. This holds good particularly for perishable products whose transport would involve prohibitive charges for refrigeration in the absence of efficient communications for rapid transport.

(f) With improved communications the number of crops which can be profitably cultivated in a particular area, tends to increase.

(g) Bad communications often impose too great a strain on the draught animals and thereby reduce their efficiency for the work of cultivation.

52. Let us now turn to the railways. The total mileage (some 40,000 miles) is far from being adequate for a vast country like India. The Indian Railway Committee of 1921 spoke of the "humble position" which India occupied in railway development. There has not been any substantial change in her position since then. Even today there are vast tracts of countryside, which have not been opened up by any railway line. The nearest railway station is often so far and the roads connecting them with the station are so bad that, for all practical purposes, the people in these tracts may be said to live in a system of compulsory regional autarchy. This can be rectified only by a bold scheme for the construction of feeder lines. There is, we believe, a large scope for the extension of such lines.

53. At this stage it is well to recall that the motives which influenced the construction of railway lines in India were not primarily relevant to her economic interests. Military considerations played the predominant part. Besides, there was a natural desire to build such lines as would facilitate the flow of manufactured goods from abroad and of raw materials from this country. There is also a good deal of truth in R. C. Dutt's contention that the inland waterways were neglected much too long; and that, from the point of view of the country as a whole, our system of communications would have shown better results had more care been bestowed on these waterways and less on railway expansion. In fact the construction of railway has in many cases proved prejudicial to the river traffic, because it has impeded the flow of rivers and caused them to silt up particularly near the railway bridges. A railway company while flinging a bridge across a river had a natural tendency to select just the spot where the current was the weakest so that construction would be less expensive, although from the national angle it would have been desirable to construct it at a point where the current was strong, in spite of the greater immediate expenses.

54. We do not, however, mean to suggest that the railway has not helped the economic development of the country. Undoubtedly it has. None the less, it cannot be denied that we have not derived as much benefit from their construction as we would have, had it been inspired by a genuine desire, above all, to stimulate the exchange of goods within the country. In these circumstances it is highly unlikely that a re-examination of our communication needs would lead to the conclusion that the existing network has been, economically, the best. In other words, not only is the total railway mileage inadequate, but, in addition, its distribution has not been ideal from the national point of view, and one of the tasks before the planning authority would be to discover which centres should be connected by new railway lines for stimulating internal trade.

55. The question of railway freights is of the utmost importance for rural marketing. For, in general, they constitute the biggest single addition to the prime cost of produce transported by rail from the point at which it is produced. The freight policy of the railway companies has given rise to a long controversy in this country. It has been argued that as a result of the heavy incidence of such freights on agricultural commodities, their price at the consuming end is substantially higher than in the producing centres. For example the difference between the price of Punjab wheat at Lyallpur

and of the same wheat at Calcutta is Rs. 1-1-7 per maund of which Rs. 1-0-4 is due to railway freight alone. The average rail freight paid per dozen of eggs is Rs. 0-0-6 which represents about 15 to 17 per cent of the producers' price. The railway authorities point out in reply that the bulk of railway revenues is derived from agricultural commodities, and that any great scaling down of the freight rates for these commodities would involve the imposition of higher rates on other traffic, and the burden would fall heavily on the tax-payer. The Royal Commission on Agriculture, reporting in 1928, recommended "a periodical revision of rates with a view to the adjustment of their incidence as between various sorts of produce according to their relative ability to bear", but it did not accept the view that "rates are generally too high". It pointed out that, since 1913, there had practically been no increase in the rates on agricultural produce, though its value had risen very substantially, particularly during the years following the war. The last argument, however, lost its force within two years after the publication of the Commission's Report. The great slump in agricultural prices was not accompanied by changes in the freight rates. In recent months, especially since the outbreak of the war, agricultural prices have been moving upwards, but the railway authorities have increased rates by 12½% with effect from April, 1, 1940.\*

56. The following remarks of the Agricultural Commission, however, deserve serious consideration: "A comparatively small difference in rates may mean the closing of important markets to a crop grower in any particular area and a consequent loss to the cultivator and the railways". It is not at all improbable that in many cases a slightly lower rate may stimulate the goods traffic to such an extent that the railway company will stand to gain rather than lose. Even when the yield from lower rates and heavier traffic is less, comparatively speaking, there cannot be the slightest doubt, that from the national point of view, the former would be the desirable course. Indeed one could go a step further and argue that even if lower rates were to result in some net loss of railway revenue, they might still be desirable in certain cases. We must not forget that what matters, or should matter, to the railway authorities is their total budget, and they need not feel particularly disturbed as long as losses in certain cases are compensated by gains elsewhere. Railways are one of the biggest public utilities. They ought not to be run simply for profit. The repercussions of the railway policy

\*The rates have been still further increased in the years that have followed.—Editor.

on the economy as a whole have to be borne in mind. Wider national considerations may at times require the sacrifice of railway revenue, even if that were to upset the equilibrium of the railway budget. The least that one can ask for from the railway authorities is that they should not hesitate to lower rates as long as losses accruing per unit are just compensated by the increase in the volume of traffic, or, in technical terminology, as long as the elasticity of traffic vis-a-vis freight changes is unity.

57. Another charge against the railway policy is that it is supposed to favour exports and imports to the detriment of the home trade. For example, it is pointed out that it costs appreciably more to carry Indian wheat from Lyallpur to Cawnpore (650 miles). Incidentally, it is well to remember that, if these charges were to be correct, they would constitute a strong argument for the protection of commodities which suffer from a discriminatory freight policy. The railway authorities, however, believe that such criticisms were effectively disposed of by the Ackworth Commission in 1921, and the Public Accounts Committee in 1936.

58. The third criticism against the freight policy is that short hauls are relatively much dearer than long distance rates. On behalf of the railway authorities it is pointed out that there are special reasons for such differences or apparent discrimination. For example, it costs Rs. 2 per maund to rail cotton from Nagpur to Bombay, but the freight from Calcutta to Bombay—double the distance—is only Re. 1 per maund. Normally the class rate from Calcutta to Bombay would be about Rs. 4 per maund, but owing to the competition from steamer companies trading between Calcutta and Bombay whose charge is roughly Re. 1 per maund, the railway has reduced its rate accordingly, although it is definitely uneconomic. Such reduction, it is argued, is only a special case, and any general adjustment to that level would completely upset railway finances.

59. The example just mentioned throws significant light on the freight policy of Indian railways, which is based on the principle of what the traffic can bear. For example, as long as a commodity like cotton continues to move on a railway, no regard is paid as to the incidence of freight on the cultivator. A striking illustration of this fact was provided some two or three years ago in the interior of the C.P. Thanks to the high railway freight, it proved uneconomic to transport cotton seed, so that in some cases it was used as fuel. When things had moved to such an absurd length the railway authorities became aware of the implications and proceeded to

reduce the freight on cotton seed. Otherwise the freight is reduced only when there is competition either from motor lorries or from sea or river routes. Thus the railway freight from Broach to Bombay is Rs. 0-6-5 during the fair season when country craft can ply in competition, and rises to Rs. 1-11-5 during the monsoon when such craft cannot operate. Since the outbreak of the war in September there has been a tendency to increase the railway freight, especially where it is felt that the cost of a competing route will also be increased, e.g. owing to a rise in the price of petrol or in the steamer freight on a competing route like that from Karachi to Bombay. It cannot be said that the policy of charging what the traffic can bear and of reducing the rates only when there is a competing alternative route operates to the best interest of the agricultural producer. National interest demands that freight rates should be kept as for their services. There is also point in the public demand that, if in pursuance of such a policy, railways were to incur some loss of revenue, they could make it good by raising the rates charged on manufactured articles imported from abroad. In any case as regards the freight rates on primary products, the more rational policy for the railways would be to enquire not what the traffic can bear, but what they themselves can bear.

59a. It is significant that, at the Conference of Ministers on 'Agricultural Marketing held in November 1938, the following resolution was unanimously passed:—

"(a) that the railway administrations and other transport agencies should be asked to take all possible steps to reduce the incidence of freight charges and to provide better facilities for the movement of agricultural produce;

(b) that this Conference deprecates differential railway freight rates calculated to favour imported as against indigenous agricultural produce."

60. The question of railway freight is so important in rural marketing, indeed in the whole economic life of the country, that it deserves very careful consideration. It is, above all, necessary to ascertain as fully as possible what truth there is in the charges levelled by the general public against the railway policy. We wish we had more information at our disposal to throw further light on the subject. But, in the short time at our disposal, it was not possible to procure the necessary data. We requested the Transport Sub-Committee to undertake a special investigation of this question in connection with their work, but we do not know to what extent it will be possible for them to comply with

such request. The issue is, however, of so great importance that we very strongly recommend a special enquiry in this field. Such an enquiry must necessarily deal as exhaustively as possible with the various aspects of the freight rates now prevailing in India, but it would be of very great help if the enquiry were to be extended to include a close analysis of the freight structures of the more important countries abroad. On the basis of such comprehensive data it would then be possible to recommend suitable measures.

61. Reference may be made here to the efforts of the Central Marketing Staff to secure special station-to-station rates. At an early stage of the marketing work the staff began to devote special attention to the question of a direct reduction in the incidence of transport costs by a multiplication of special rates which would benefit both producer and consumer and at the same time result in increased railway revenues. As a result of the negotiations between the marketing staff and the railway authorities substantial concessions have been granted in many station-to-station rates. Commodities which enjoy such special rates include cattle, plantains, limes, pineapples, grapes, guavas, cauliflowers, mangoes, oranges, eggs, potatoes, etc. In all cases where the rates have existed for a sufficiently long time so as to enable us to form a judgment, the reduction of rates has been followed by a more than proportionate increase in the movement of goods. "There is no doubt therefore", says the Agricultural marketing Adviser, "that the introduction of special rates will help to expand the producers' market and bring more traffic to the railways". Incidentally, this statement shows that the public criticism of the railway freight policy was by no means out of place.

62. Before concluding this chapter we may briefly note that in the opinion of the Agricultural Marketing Adviser, certain improved facilities may be provided by railways, which would reduce the cost of transport. Incidentally, we agree with the latter that there should be a closer contact between the marketing staff and the railway authorities, so that the possibilities of lowering the incidence of transport charges could be better explored.

(a) Where special wagon rates are in force on certain railways the minimum quantity is relatively high and the forwarding of mixed consignments is not allowed. As producers as a rule are small consigners, they would benefit if special rates in respect of lower consignments could easily be permitted as long as the commodities mixed are of the same class. Such permission would also assist the producer.

(b) There is also the possibility of reducing transport charges on primary products by introducing through rates.

(c) Transport charges may also be reduced by the introduction of "Owners risk rates" on certain primary products, and a readjustment of the rates on unmanufactured and manufactured products so that the incidence of the freight should more nearly approach an *ad valorem* basis.

(d) An expansion of the collection and delivery of services would result in considerable economy as has been shown by the experiences of the N.W.R. in Lahore and Delhi, of the G.I.P.R. in Bombay and the E.I.R. in Calcutta. This system which is now practically confined to small parcels, could be further developed and perhaps extended to include wagon load consignments.

(d) Apart altogether from the question of railway freight, certain improved rail facilities would result in a reduction of total costs of distribution. The marketing surveys have shown that, in the course of transit, considerable wastage of produce occurs, much of which could be avoided by the provision of better facilities. For example, at one important station goods in being transhipped from narrow to broad gauge lose heavily owing mainly to the absence of transit sheds to protect the produce; this is partly perhaps also due to the condition of the gunny bags used. Fruits and vegetables such as bananas, mangoes and potatoes are carried in goods wagons, and as there is no arrangement for shelving, the produce at the bottom becomes crushed and damaged. At times such wastage amounts to as much as 25 per cent of the produce. Besides, the iron wagons get so hot that much of the fruit become over-ripe and unfit for sale.

(f) The possibility of introducing express goods trains for certain traffic has to be explored. A goods train now takes at least 5 to 6 days to cover the distance between Nagpur and Delhi. (679 miles). In other cases it takes considerably more to cover the same distance.\*

(g) Defective containers are in many cases responsible for the damage in transit. In the case of eggs it has been found that wastage can be reduced by at least 4 or 5 per cent, through improved packing. But so far only the N.W.R. has taken steps for designing and providing cheap light containers to producers and merchants.

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\*Some Express goods trains have recently been introduced, as a result of lorry competition, to carry cotton from C.P., Berar and Khandesh. We do not see any reason why the introduction of such trains should depend only on the existence of lorry competition.

## CHAPTER VI

### ROADS, INLAND NAVIGATION, COASTAL SHIPPING:

63. With a total railway mileage which falls far short of the national requirement, the need for good roads becomes all the more urgent. Here, again, conditions are far from being satisfactory. The total mileage of roads is not only very small as compared with that of other countries, but a large part of it is in an incredibly bad state. The so-called village roads are often mere tracks with "metaphysical borders" which can be used only during the dry season. Bad local communications make the assembling of agricultural produce both difficult and expensive.

64. In an ideal system railways and roads are not competitive, but complementary. The extension of railways gave the first great stimulus to the construction of new roads which were necessary to feed the railways. That need persists even today. Without good and sufficient roads a railway line cannot attract a sufficiently large volume of traffic to render its operation profitable. Feeder railway lines with feeder roads are what we need most. When vast areas still have no more than the most primitive arrangements for communication we must try our best to avoid competition between rail and road of the type which has become common and is growing in intensity in most of the Western countries. Such competition means duplication and therefore waste which we cannot afford.

65. Just as we require roads to feed the railways, so also there must be smaller roads to feed the arterial ones; and just as railways and roads are complementary, so also are the different classes of roads among themselves. Smooth functioning of the whole system of communication presupposes that each category should be in good condition. If any link gets out of order, there is bound to be dislocation. For example, a province may have good roads of Class I and Class II, but unless its Class III roads, that is, the village roads, are in a tolerable state, villages which are not situated on any through route of communication will hardly be benefitted. Not infrequently the condition of the first few miles of road is the decisive factor for a villager, because the trouble and expense involved in bringing the produce to the point where better roads begin are in such cases likely to be disproportionately heavy.

66. It cannot, however, be denied that so far village roads have been neglected most. This is largely to be attributed to the manner in which road development has been financed. The resources at the disposal of local bodies were not equal to their task and were mostly exhausted for the maintenance of the bigger roads. The Madras Government have been giving since 1925-26, an annual grant of several lakhs of rupees for the construction of minor roads on condition that an equal amount is provided by the district boards concerned. Taking India as a whole it can safely be said that in the past the interests of villages in respect of such roads have more often than not gone by default. Any improvement in this field would, however, be possible only when a large number of roads are included in the arterial systems which are maintained from the provincial revenue, so that some of the resources at the disposal of local bodies could be released for the development of communications between such roads and the villages not situated immediately on them. Besides, a liberal policy of grants-in-aid should be adopted for assisting the local bodies whose financial resources are unduly limited. For it can hardly be regarded as fair that in marketing his produce the cultivator in one area should be placed at a disadvantage as compared with the cultivator in another area simply because his district board has not enough financial means to look after the roads.

67. The growth of motor transport in the countryside raises new problems. Roads are now subjected to great wear and tear; but there has been no corresponding increase in the care bestowed on them with the result that they have in many cases been rapidly deteriorating. The bullock cart, however, remains the cheapest means of transporting agricultural produce to the nearest market; and it is highly unlikely that it would be superseded by motor traffic for such short distance transport. The ideal construction of the cart wheels, however, deserves careful investigation from the point of view of softening their effect on the road surface, as well as that of increasing the efficiency of the cart and lessening the strain on the draught animals. Of late the suggestion for bullock carts with pneumatic wheels has been put forward, but we do not feel sure that it is likely to prove sufficiently economic. Something can, however, be done by prescribing the minimum thickness of cart wheels, as wheels with a relatively low thickness and sharp edges which cut right into the surface of the road, are frequently responsible for its unduly rapid deterioration.

"The economics of Road Transport, after the invention of the Motor Lorry, do not seem to have been sufficiently stressed

above. From the standpoint of planned economy, treating the entire Transport System of the country as an integral service or utility, the problem is not to supersede one form by another, but rather to co-ordinate all forms, and make an integral whole out of them. The mechanised road transport can be easily integrated with other forms of that service. In a country like India, with relatively small scale producers, with limited consignments, it is more economical than the Railway, which is essentially more suitable to large single consignments for long hauls. Railways, moreover, require locomotives and waggons, which are still not made in this country; and so involve a dependence on foreign supplies, which is bound to be a source of national weakness. There is, nothing, however, to prevent such industries being established in the country; and steps are even now being taken to that end by the country's Government.

The last argument applies equally in the case of mechanised Road Transport. The Automobile Industry has yet to be born in this country. And to the extent that we have to import motor vehicles from abroad, for use in peace or war, our national economy would be vulnerable. But projects are before the country for an early establishment of this industry also in the country.

Motor Transport has a further handicap in the fact that it is operated by petroleum, which has almost entirely to be imported from abroad; while the railway locomotive is still largely operated by indigenous coal. In both cases, however, the substitution of electric energy is imperative, if India's aim in planning, to achieve national self-sufficiency, is to be accomplished. Electricity can be produced in this country from our rivers, or by artificial pounding of rainwater, much more economically than any alternative form of motive power. It is consequently worth serious attention by the Planning Authority, when one is set up and functioning."—Editor.

68. Water transport is considerably cheaper than transport by rail or road. In England inland navigation dwindled with the advent of the railways. Besides, England has such a long and indented coast line, that coastal shipping proved to be more convenient and economic than canal transport, particularly after the introduction of the steamship. In this respect we would do well to take a leaf rather from the economic history of Germany whose inland waterways have always received a good deal of public attention and care. Only a short time ago the Rhine, the Elb and the Danube were connected with a system of canal, so that goods can now move by water from the Rhineland right down to the Danube valley. India with her

numerous large rivers, her more than four thousand miles of coast-line and with an abundance of good ports both in the East and the West, occupies a very favourable position for developing both inland and coastal shipping. But so far she has not realised even a fraction of her vast possibilities, with the result that she has remained excessively dependent on her railways for the transport of primary products, although such transport is bound to be much more expensive, and, at times, in view of the inadequate railway mileage, difficult, if not impossible. It appears to us strange that the Royal Commission on Agriculture should have practically nothing to say on the possibilities of water communication in India.

69. The causes for the neglect of our waterways have been broadly indicated in the last chapter. River transport is intimately connected with river training. With every step taken for training rivers the scope for water transport would be widened. Even under the existing conditions there is, in our opinion, a good deal of scope for developing water traffic. Nor should transport by ordinary boats be neglected. Just as, in spite of the advent of motor lorries, the bullock cart has an assured place in our transport system, so also the boat traffic is likely to remain the cheapest means of transport particularly along the smaller waterways which are not navigable. The whole question is of such vital importance, that we strongly recommend an all-India enquiry for exploring what possibilities there are at present of transport by boats and steamers, and what new possibilities could be created if her neglected rivers were made and kept navigable and fed by a suitable system of natural or artificial waterways. In this connection it may be mentioned that the spread of water hyacinth in Bengal and Assam, which drives large areas of cultivated land out of cultivation, often blocks the waterways and makes their navigation extremely difficult. The boat traffic along many smaller waterways has in many places been brought to a complete standstill. The destruction of this pest has become an urgent problem in those two provinces, and the necessary ways and means for this purpose will have to be found.

70. There is at present a number of companies, mostly operated by non-Indians, which deal in coastal traffic. The problem here is twofold: how to stimulate the traffic further and how to bring it under Indian control. The national requirements are quite clear, and they have been emphasised time and again. But the problem has been complicated by the strong opposition from vested interests now backed by some of the clauses of the new constitution.

71. The development of water transport, both inland and coastal would in many cases break down the monopoly which railways now enjoy for the transportation of agricultural produce. Under conditions of monopoly the interests of the public are not always properly safeguarded. The opening up of alternative possibilities of transport by water is, therefore, likely to operate to the advantage of the cultivator as the element of competition would almost necessarily result in lower rates. A striking example of such rate reduction has already been offered in para 58, where we have mentioned how, owing to the competition of coastal traffic between Bombay and Calcutta, the railway freight rate which normally would have been Rs. 4 has been replaced by a special rate of Re. 1. It may not always be possible or desirable to compel the railway authorities to introduce such drastic reductions, but there is no doubt that, as a result of competitive transport possibilities, they will be more inclined than now to grant concession rates wherever such rates can be granted without seriously upsetting railway finance.

72. As regards the freight structure of the inland navigation and the costal shipping companies, we regret very much that, in the absence of sufficient information at our disposal, we are not in a position to offer any comments. Such freights have, however, an obvious bearing on the marketing of agricultural produce, and we are of the opinion that the Central Marketing staff should deal with this matter as well. Further, as in the case of the freight policy of the Indian railways, we recommend a comparative study of shipping freights prevailing in India and abroad. There is, we believe, a strong presumption that Indianisation of coastal and inland shipping, if accompanied by further state regulation, would render possible a substantial reduction of the freight rates, and a comparison of our freights with those of Japan may throw some valuable light on the subject. The day may be a long way off when we shall have our own ship-building industry. None the less, it is well to remember that, as long as steamers are imported, shipping freights will necessarily be higher than when these can be supplied by an indigenous industry. Nor should we overlook the consideration that all other important agricultural countries of the world have their own ships to carry their products to overseas markets. As such they are in all probability at an advantage in the world market in comparison with us, because, being dependent on foreign ships for our export trade, we are likely to pay more as freights.

**PART III**  
**REGULATED MARKET IN INDIA**  
**CHAPTER VII**  
**GENERAL CONSIDERATIONS**

73. The origin of regulated markets in India is not new. It may be said to date from 1897 when the Berar Cotton and Grain Markets Law was passed". This law was promulgated by the Government of India in the Foreign Department for the "Hyderabad Assigned Districts", as Berar was then officially called. Further, under section 105 of the Central Provinces Municipal Act of 1903, municipal authorities were empowered to frame by-laws for the inspection and regulation of markets and for the charge of fees for the use of buildings and places therein. The progress of regulated markets in India was very slow. At the time when The Royal Commission on Agriculture investigated the whole question (1926-28), there were regulated markets only in the C.P. The Bombay Government had just passed the Bombay Cotton Market Act (1927) for a better regulation of the commodity in the Presidency. The Commission very strongly recommended the establishment of regulated markets which "would confer an immense boon on the cultivating classes in India". If carefully examined it will be seen that the actual working of the Berar Act and the provisions of the new Bombay Marketing Act have made a number of very valuable recommendations. Before we proceed further it would be desirable to set forth the Commission's views, as, in our opinion, they include all the vital considerations on which the successful functioning of regulated markets in India will depend.

74. The markets organised under the Berar Act of 1897 suffered from some serious drawbacks, although they were definitely superior to those established under the provisions of the Municipal Act, which were only very imperfectly regulated. The main defect of the Berar system was that it could not properly safeguard the interests of the grower. Commission agents and large buyers had a majority on the market committee. The representation of the growers was rendered difficult, if not impossible, by the fact that, according to the rules laid down, no person was eligible for appointment to the Committee, unless he had resided for at least three months

within the limits or within 5 miles of the town in which the market was situated, prior to the date on which the list of persons eligible to the committee was prepared. The Bombay legislation sought to remedy this defect by providing (i) that the market committee should have not less than twelve or more than sixteen members, (ii) that cultivating classes should elect not less than half of the total number, (iii) that one member would be nominated by the local Government, one elected by the district board of the district in which the market was situated, one by the municipality, if it was located within municipal limits, and the remainder by the traders in the market. Secondly, although, according to the Berar Legislation, it was illegal to take trade allowances, the nature of such allowances was not defined. Here, again the Bombay legislation was an improvement, as all trade allowances were declared illegal except those which were prescribed under the rules or bylaws laid down under the Act. Lastly, while under the Berar Law any surplus remaining at the end of the financial year was to be automatically transferred to the district board or municipal committee in whose area the market was situated, the Bombay legislation explicitly defined the purposes, all of which were connected with the market, on which such surpluses could be expended.

75. While wholeheartedly endorsing the principle underlying the Berar system and welcoming the improvements embodied in the Bombay Act, the Commission made some further recommendations as to the functioning and the constitution of such markets, which it would be worth our while to summarise here:—

(a) Although the Berar Law was known as the Cotton and Grain Markets Law, the markets established under it dealt almost exclusively with cotton. The Bombay Legislation explicitly limited them to that crop. The Commission saw no justification for such a restriction and recommended that products other than cotton should be brought within the range of regulated markets.

(b) There should be special provincial legislation under which regulated markets should be established. Several difficulties would arise if the management of such markets were to be left to municipal councils or district boards, as was clear from the experience gained in the C.P.:—

(i) Strong representation of vested interests being usual in such bodies, the interests of other parties and of the grower in particular, were not likely to be adequately safeguarded.

(ii) There was a very real danger that markets would be regarded merely as a source of revenue and the larger considerations would be lost sight of.

(iii) The actual location of the market might not necessarily be the best and most economic. A municipal council would naturally like to select a site within the municipal area while the exigencies of communication might very well require the selection of a spot outside its jurisdiction.

(iv) In a Municipal Act it would be difficult to provide for all the powers required for the proper control of a regulated market.

(c) The establishment of regulated markets should not be left to the option of a local committee as it could hardly be expected from such a body that it would appreciate the full import of starting such markets. The initiative should be taken by the local government, and such markets should be immediately established in a few suitable centres.

(d) The initial expenditure on land and buildings incurred in starting such markets should be met from a loan from provincial revenues.

(e) The relationship of a regulated market to the council of any municipality or to the local board in the area in which it is established would necessarily be a delicate matter. A financial settlement would be required between the two where the regulated market to be established would replace one previously run by a local board or a municipal council.

(f) As regards the constitution of the market Committee, the provisions of the Bombay Act were approved, particularly the provision for the election of not less than half the members from the cotton growers of the area to be served by the market. Where this was not enough to protect the interests of the latter, the committee should include an officer of the Agricultural Department. No licensed broker should be eligible for election to the Committee as a representative of the cultivators. The Committee should elect its own chairman. Ordinarily provision should also be made for the representation of the co-operative societies in the area served by the market.

(g) A serious defect common both to the Bombay and the Berar Act was that no suitable provision was made for the settlement of disputes; and in all disputes over the quality of cotton, the cotton-grower was always at a great disadvantage. It was therefore indispensable for the smooth functioning of the regulated markets that provision should be made for the

machinery to settle disputes, in the form of *Panchayats* or a board of arbitrators.

(h) Amongst the duties of the market committee should be that of placing marketing information in a suitable form at the disposal of the users of the market.

(i) Lastly, action should be taken to prevent brokers in a regulated market from acting for both buyers and sellers as in all such cases the broker had a "natural predilection in favour of the buyer". The Commission held very strong opinion on this point and regarded it as "so important in the interests of the cultivator that this undesirable practice should be stopped, that we would suggest that the license of any broker found contravening the provision we propose should be cancelled for the season, and on the repetition of the offence, cancelled permanently."

(j) Storage accommodation on a limited scale should be provided in regulated markets.

(k) Regulated markets should be utilised for purposes of propaganda in favour of agricultural improvement and thrift.

76. From what has been said above it is clear that the Commission laid, and rightly laid, very great stress on the desirability to improve and extend the system of regulated markets in India. Its recommendations gave some stimulus to the movement, and in certain parts of India new legislation was passed. The Cotton and Grain Markets Law of Berar was amended in 1932, the Madras Commercial Crops Markets Act was passed in 1933, in Hyderabad the Agricultural Markets Act was passed in 1939, while since 1934 a similar legislation, 'the Agricultural Produce Markets Act', has existed in Baroda. More recently and mainly as a result of the activities of the new marketing staff, some provinces and states have passed or will soon pass, legislation for a better regulation and control of wholesale markets of primary produce. Nevertheless, the fact remains that at present properly regulated markets are in operation only in the C.P., Bombay, Madras and Hyderabad.

77. The survey of some of the more important regulated markets now operating in three provinces and one state (see appendix at the end of this chapter) serves to throw into bold relief two significant facts. In the first place their working has not always been flawless, and only in a very few cases they have approximated to the type which was recommended by the Royal Commission. And, secondly, taking India as a whole, the development of properly regulated markets, in

spite of the advocacy of the Commission, has been a remarkably slow process. What are the causes of this unsatisfactory state of affairs and how to remedy such a situation?

78. In the case of regulated markets functioning under provincial legislation, the degree of deviation from the ideal is, in the main, proportionate to the thoroughness with which the provisions of the law are enforced in practice. It will be seen that, as well-known a market as that of Amraoti, though controlled and regulated under the C.P. Cotton Market Act of 1932, falls short of our expectations because of the haphazard enforcement of the rules and regulations which have been explicitly laid down. Even a fool-proof law cannot carry us very far, if it is half-heartedly put into force. None the less, it remains true that markets controlled and regulated under a Municipal Act tend to deviate from the model in a still more marked degree; and that this tendency is almost inevitable in view of the conditions under which they are established. The reasons for this have been given above in para 75(b), where the observations of the Royal Commission on Agriculture on this important point have been recapitulated. In actual fact we have seen that, for example in the regulated market of the C.P. functioning under the Municipal Act, the income from the market is far in excess of the expenditure; and that the surplus is, as a matter of course, merged with the general revenue of the municipality and utilised for other purposes, even when some of the most elementary facilities have yet to be provided for in the market. Such a policy runs counter to the basic object of establishing regulated markets, namely, to ensure for the cultivator the highest possible return for his crop. A part of the market fund may legitimately be earmarked for effecting improvements in the market itself, e.g. by organising a better news service for prices, providing godown facilities etc., in addition to the current expenditure on the establishment. But to divert it into entirely different channels of activities in which the cultivator is not even remotely interested, is hardly relevant to the purpose for which regulated markets are advocated. To the extent to which such a diversion takes place, the Municipality itself becomes the middleman. The market cess is a direct levy on the cultivator and the incidence of other charges can be very largely shifted on to him. Even if it were theoretically possible for the cultivator in certain cases to shift the incidence of the cess and other market charges to other shoulders, his hopelessly unorganised state would automatically rule out that possibility. It follows that the market committee, in fixing the various charges and especially those which will be directly borne by the cultivator,

should be careful to keep them at the lowest level compatible with the maintenance of the market at a high level of efficiency together with an increasing supply of better facilities. In short our policy should be one of maximum benefit to the cultivator with the minimum costs. If to these considerations we add that, when a market functions under a Municipal Act, the interests of the cultivator are not likely to be adequately represented on the Market Committee, that when disputes arise, he is more often than not likely to get less than justice, and that even the selection of site for the market may not be the best, it becomes abundantly clear that, in some vital respects, such a market can be no more than an apology for a regulated market properly so called. We must, therefore, recommend that in future no more "regulated" markets should be established under a Municipal Act, and that the markets of the C.P., now controlled and regulated under such an Act, should be reorganised and brought under provincial legislation.

79. Even this, however, may not guarantee the independence of a regulated market. It is but natural that, for the establishment of new regulated markets, there should be a tendency to select those places which are important business centres. As all such places are likely to have markets already in existence under the management either of a municipal council or a district board, the question of a financial adjustment with vested interests will frequently arise. Such a question bristles with difficulties. It will be noticed from the survey of regulated markets that in many places a Market Committee has taken over the charge of the market from a municipality. In few of those cases can it, however, be said that the terms on which an agreement has been concluded with the Municipal Board to compensate it for the loss of its control over the market conform to the best interests of the regulated market. At Amraoti the Market Committee agreed to maintain the roads not only within the market yard but also all the approach roads. It also agreed to hand over to the Municipal Board whatever surplus revenue remained after meeting all its expenses for the establishment and other items in connection with the market, provided that the reserve balance did not fall below Rs. 2500. In the case of the Akola market, 15% of the gross revenue together with any surplus over expenditure, after providing for the reserve fund, should be handed over to the Municipal Board. At Raichur and Warangal, the Market Committee surrenders 50% of the receipts from the market cess. Generally speaking, these terms impose an undue sacrifice on the Market Committee, and cannot be regarded as compatible with the principle we have

enunciated in the previous paragraphs, of the maximum benefit to the cultivator with the minimum cost. The ideal course, in our opinion, would be to compensate the Municipal Board, or whatever other body it may be, once for all by paying a fixed sum either in lump or in several instalments. Market committees seem to realise more and more the advantages of the latter procedure, and of late there has been a pronounced tendency to acquire the market place outright by paying a compensation to the vested interest in question. At Bailhongal, for instance, the Market Committee has purchased the market place by paying Rs. 7,000 to the Municipal Board out of the Market Fund. At Raichur and Warangal, the Market Committees are contemplating to acquire the market-places on payment of the necessary sum from the market fund. The same tendency is noticeable at Tirupur and some other places. We think market funds will, normally, be large enough to supply within a few years the amount required for the acquisition of proprietary rights over the market-place. Where the establishment of a new regulated market is contemplated and, consequently, no market fund has been built up, the most desirable course would be for the government to advance the necessary amount as loans at a low rate of interest, to be paid back, say, within five years. On this point we have the recommendation of the Royal Commission on Agriculture to the effect that "the initial expenditure on land and buildings incurred in starting them should be met from a loan from provincial revenues".

80. The octroi or terminal tax levied by municipalities also calls for some comment. The application of Market Acts did not affect the income of the municipalities from this source. This charge is levied by municipalities at the outpost of the municipal barriers and continued to be realised independently of the market rules framed under a Market Act. At Raichur, Warangal and Bailhongal the municipality collects from the inward traffic terminal tax of Rs. 0-4-0, Rs. 0-3-0 and Rs. 0-12-0 per cart respectively. At Amraoti, Akola, Dhulia, Raipur, Drug and some other places, there is no octroi or terminal tax on inward traffic. At Amraoti the municipality levies a terminal tax on all exports of cotton whether by rail or road at Rs. 0-15-0 per bale of lint. At Dhulia it is Rs. 0-8-0 per bale. At Raipur an octroi duty is charged at the rate of Rs. 0-2-0 per maund on all grains etc., which are taken out of the wholesale grain market for sale in the city, or sold in the city without at all coming to the wholesale grain market. The carts coming to the wholesale market are issued free passes. Of all these systems, that of Raipur appears to be the best because the

charge falls upon the consumers who live within the municipal area and therefore get the benefit from municipal expenditure. The least desirable procedure is that of collecting taxes from every cart entering the market. For such a charge hits the cultivator directly, although he does not in any way profit from the expenditure undertaken by the municipality. In fact, it boils down to a policy of taxing the countryside for the benefit of the town dwellers.

81. On behalf of the municipality it may be argued that the policy we have advocated above would involve severe loss of revenue for the Municipal Board and thus upset its budgetary equilibrium. We may, however, point out, firstly that a policy of levying an octroi duty only on carts carrying grain for retail sale in the city, in accordance with the practice now prevailing at Raipur, need not lead to a serious loss of income. Secondly, the loss of revenue resulting from a transfer of the market to an autonomous Market Committee will be largely compensated by a rise in income from other sources and/or a reduction in expenses as a result of the enforcement of the market act within a municipal area. For example, a properly regulated market will almost necessarily attract a growing volume of trade; and the amount of water tax, electricity charges, etc., paid by the Market Committee to the Municipal Board may be expected to go up appreciably, while at the same time, the Board will be relieved of all expenditure for the upkeep of roads within the market yard and for the maintenance of the market place in proper order, as these functions will devolve on the Market Committee. Lastly, if in spite of all this, the income of the Board were to go down, it could make the loss good by a slight adjustment of its various rates. This is all the more to be desired as the burden of rates would then more directly fall on the shoulders of those who would enjoy the amenities provided by the municipality.

82. As regards the commodities dealt with in a regulated market, we have seen that only the Hyderabad Act includes all agricultural products, while the Bombay and the C.P. Acts are restricted to cotton and the Madras Act to cotton, groundnut and tobacco. The possibility of extending the scope of the last three Acts have to be borne in mind. In future provincial legislation, such restriction should be avoided unless there happen to be some over-riding consideration in its favour. Only in very few cases (Akola) the system of double intermediaries, one broker for the buyer and one for the seller, has been introduced. The unequivocal recommendation on this point of the Royal Commission on Agriculture should not be lost sight of. We, therefore, recommend an alteration in the by-

laws of the regulated markets now in existence, so as to prevent the same broker from dealing both for the buyer and the seller. Future legislation on market regulation, or the by-laws prepared thereunder, ought to embody a clause to that effect. We have further noticed that in many markets bargaining under cover of a cloth is still the rule. Such a procedure is definitely prejudicial to the interests of the seller. We, therefore, recommend that the by-laws should specifically provide for open bargaining. The outer zone of the market has to be carefully fixed so as to avoid any diversion of traffic. Its delimitation may very well call for a special local investigation. We approve of the principle, followed at Bailhongal where the market limit is within ten miles of the market place, of registering and licensing not only the intermediaries residing within the market limits but also those coming from outside to transact business within the market zone.

83. All regulated markets, as will be seen from the Appendix, are controlled by Market Committees; while these Committees in their turn are placed either under the district officer and the Commissioner of Division, as in the C.P., Bombay, and Madras, or under the Marketing Officer, as in the Hyderabad State. The control by the Collector has not always been conducive to the growth and efficiency of the market. At Bailhongal the district officer found it necessary to delegate powers to the local Deputy Director of Agriculture under whose supervision the market is more efficiently managed. There is much to say in favour of the Hyderabad policy. For example, the success of the Raichur market, which is one of the best regulated markets as far as supervision, working and layout are concerned, is largely due to the fact that here the Market Committee is controlled and guided by the Marketing Officer with the help and cooperation of the district officer. Our survey has also revealed that the Market Daroga or Superintendent occupies the key position in many regulated markets. In fact the success of a market depends more on his integrity and efficiency than on other factors. Where such a superintendent is appointed, the greatest care should be taken in his selection. Once the right man is chosen, he should be given sufficient freedom of action and should not be entirely controlled by the Market Committee. Further, such a Superintendent might in many respects be usefully guided by the Marketing Officer particularly for the introduction of grading, standard, and contract terms, etc.

84. Two factors have been mainly responsible for the palpably slow growth of regulated markets in India, namely the opposition from vested interests and an imperfect appreci-

ation, both by the government and the public, of the necessity of such markets. As regards the former, we have already indicated why municipal authorities are apt to look askance at the idea of converting a market, run and managed by them, into a regulated market controlled by an independent market committee. An interesting example is provided by the Dhulia Market. The market-place there originally belonged to the Municipal Board and a private person and was leased out to gin-owners. When the Bombay Marketing Act was enforced there in 1930, the Market Committee took the land on lease from gin-owners for 3 years at a nominal rate. At the time of the renewal of the lease one of the gin-owners went into liquidation so that the Market Committee had to approach the Municipality directly for a new lease. The Municipal Board took undue advantage of the situation, and demanded an exorbitant rent of Rs. 1,000/- per annum for the piece of land of the gin-owner who had gone into liquidation. The Market Committee refused to pay such a heavy rent. A dispute is still pending and the Committee is trying, with the help of the revenue authorities, to acquire the land. This is no doubt an extreme case, but, as we have seen before, the question of a financial settlement with the Municipal Board is, in general, a very delicate one. We have, however, indicated what, in our view, seems to be the best method of overcoming such opposition. We hold that the Market Committee should once for all acquire the market place, and pay adequate compensation to the Municipal Board. In fixing the amount to be paid as compensation the Government can lend a helping hand and, in extreme cases, take the necessary steps to overcome the opposition of a recalcitrant Municipal Board. Lastly, the amount required for compensating the Board or in cases where a Municipal or a District Board is not involved but initial expenses have to be incurred on land and buildings, the sum required for this purpose, should, whenever necessary, be advanced by the government in the form of a loan. Such a loan could be easily repaid by the Market Committee, for, as the survey of regulated markets shows, in every case there has been an appreciable accumulation of market funds.

85. The opposition is, however, by no means confined to Municipal Boards. In fact, such intermediaries as brokers, weighmen, etc., who find their very means of livelihood jeopardised, have often combined to oppose the enforcement of a Marketing Act in a particular area. Such opposition is perhaps more difficult to overcome. Nevertheless, disagreeable as the task is, it must be pushed through. The line of least resistance would in this case mean a perpetuation of ineffi-

of the Central Marketing Staff and Senior Marketing Officers in Provinces and States, a draft model Bill for the regulation of markets was drawn up.<sup>2</sup> The bill which was designed to form the basis for local legislators was circulated to the provinces and States. In the Punjab a Marketing Act was passed in 1939. Bills suitable for local conditions have been introduced or prepared in the United Provinces, Bihar and Bengal and were under preparation in Sind, the North West Frontier Province, Mysore and Travancore. In addition, the Bombay Act is being amended to include crops other than cotton. Provision for statutory regulation of markets was made some years ago in Gwalior and Patiala. The C.P. has the oldest marketing Act while in Madras too marketing legislation has existed since 1933. Thus very soon legislation for regulated markets will be in existence practically in all the provinces and in all the bigger and more important States. So far so good. It is now to be hoped that provinces and States will make prompt and unstinted use of the new legislation. The phase of experimentation in regulated markets is now over. What is needed at this stage is their multiplication on the basis of the consolidated results of our past experience. It is, therefore, our ardent hope that, during the next few years, new and properly regulated markets may spring up all over India at a very much greater pace than has hitherto been the case.

2. The main recommendations in the bill are:—

- (a) that all ~~existing~~ markets and market charges should be registered.
- (b) that regulated markets should be established, in which—(i) the number and amount of market charges should be fixed, and the number of payments in aid should be reduced; (ii) persons entitled to levy charges and market operators, e.g. dalals should be licensed, (iii) practices in regard to weighment, sampling, auctioning, etc. should be standardised.

## APPENDIX TO CHAPTER VII

### The Working of Regulated Markets in India.

#### 1. Central Provinces.

88. As indicated in the previous chapter, regulated markets in the C.P. fall into two distinct categories: markets regulated and controlled under the C.P. Municipal Act, and those operating under the Berar Act of 1897, as subsequently amended in 1932. Let us consider these two classes separately.

89. As examples of the markets operating under the C.P. Municipal Act may be mentioned those of Raipur, Drug and Nagpur. The market of Raipur has, from its origin, belonged to the Municipal Board which controls it through its Executive Committee. It is situated close to the railway station and at a distance of about a mile from the town. The market yard contains a big tin shed for temporary storage to protect the cultivator's produce from rain. No storage rent is charged for the first three days after which Re. 0-1-0 has to be paid daily for each bag. Within the market area there are also permanent godowns and shops which are let out by the Municipality to the Arhatyas and others on a monthly rent. Although all kinds of grains are brought to the market, rice is the chief commodity dealt with. Market Daroga or Superintendent is the *de facto* executive head of the market. Disputes are also settled by him, and only when his decision is not accepted by the parties, the matter is brought before a special tribunal consisting of two members of the Executive Committee of the Municipal Board and one representative of the market. If the tribunal fails to arrive at a unanimous decision, the case is ultimately settled by the executive committee. In cases of exceptional urgency the president settles the dispute and reports it to the Executive Committee for information.

90. All the operations in the market are either registered or licensed. Dalals, measurers, male coolies have each to pay an annual fee of Rs. 12, that for a female coolie being Rs. 9. As for market charges, both buyer and seller have each to pay 3 annas per cart for dalali; and out of the 6 annas paid by them 4 annas go to the Municipality. The measuring charges are  $\frac{1}{2}$  pice and 1 pice per candy for the seller and the buyer respectively. The seller has to pay 2 annas per cart as coolie charges. No octroi is charged for any produce sold

inside the market yard. For produce sold outside the yard or taken out for retail sale, an octroi duty of 2 annas per candy is charged. The produce meant for export is, however, allowed free despatch.

91. The dalal serves as the intermediary in settling the transactions between the seller and the buyer. All transactions are entered into the dalal's book. As soon as a transaction is over, his book is examined by the Market Daroga in order to ensure that the seller and the buyer are both agreeable to the price at which the produce is to be sold. When the final agreement is reached, the dalal deposits Rs. 5 per cart as earnest money on behalf of the buyer.

92. The sources of income of the Raipur market are:—

(i) Market cess at the rate of 4 annas per cart realised on its arrival. In 1937-38 there were 85,247 arrivals, yielding a revenue of approximately Rs. 21,300. (ii) Godown and land rent. (iii) Sale of manure. (iv) Octroi on produce sold outside the market yard, but within the municipal area. (v) Licensing and registration of dalals, coolies, measurers, etc. and carts plying for hire within the market area. The main item of expenditure is the maintenance of the staff for the management of the market. The income is, however, far in excess of expenditure. The surplus revenue of the market which is a fairly large sum is merged with the general revenue of the municipality and spent for purposes not connected with the market, though the facilities provided for the producers and other operators in the market are far from being adequate.

93. The Drug market differs from that of Raipur mainly in respect of the methods of transacting business and of settling disputes. The seller on his arrival at the market yard unloads the cart and obtains receipt from the market Daroga, which he sticks into the heap. The dalals assemble round the heaps and make offers. The name of the highest bidder is entered in the receipt book in the presence of the Market Daroga. Subsequently auction takes place and the name of the final bidder is entered in the receipt and earnest money is deposited. The produce is then measured by licensed measurers and the final entry as to the quantity is made, and one copy is given to the seller and the other copy retained by the Market Daroga. The Finance Committee (7 members) of the Municipal Board (18 members) manages the market, and its Chairman (Vice-President of the Municipal Board) carries on the administrative work on their behalf. Disputes are either settled by the Chairman himself on the spot, or he deputes one of the members of the Committee for enquiry and report

and the final orders are passed by the Chairman. The disputes are generally decided within 24 hours and if the decision of the Chairman is not acceptable, an appeal can be made to the President of the Municipal Board.

94. We now turn to the markets controlled and regulated under the C.P. Cotton Market Act of 1932. These markets, as the legislation explicitly mentions, transact wholesale business only in cotton. The best examples of this type are those of Amraoti and Akola. The Amraoti cotton market is one of the biggest and most well-known markets in the whole of India. The average arrival of carts per year is estimated at 1,00,000. The market was started as early as 1872 under the control of the Municipal Board. The Committee of the Board which regulated the business, consisted of the representatives of merchants and dalals, but the interests of the growers were not represented on it. According to the rules laid down by the Cotton Guard Committee no dalal was allowed to use the market without a license; cotton weighmen could take no Kapas as payment; the charge for weighing one boja of cotton was not to exceed 1½ annas and the same rate was fixed for dalali; no sample could be taken from any Dokra; all cotton brought to Amraoti had to be registered at the cotton market, and people violating these rules were prohibited to use the market. Since 1873 a guard fee or toll of one anna per boja was collected in order to meet the expenses of maintaining the guard.

95. Although the Amraoti market, as managed by the Cotton Guard Committee, was in many respects a forerunner of a properly regulated market, it was not converted into a full-fledged regulated market until the passage of the Act of 1897. Three years later the Amraoti Cotton Market Committee was formed. This Committee took over the control and management of the market from the Municipal Board on condition that after defraying all the charges of the market and keeping a reserve balance of Rs. 2,500, the surplus revenue would be handed over to the Municipal Board. The Committee consisted of 5 members, two of which were nominated by the Municipal Board and three were representatives of the traders in the market. In 1923, when the Act of 1897 was amended, the Committee was reconstituted as follows: Out of 11 members 4 were elected by local traders, 4 by the cotton-growers of the Tahsil, one nominated by the Municipal Board, one nominated by the District Board and one representative of the local co-operative societies. The Committee elects its own Chairman, its life being for three years. The control and management is under the Market Committee

which in its turn is placed under the supervision and control of the district officers, while, for the administration the Commissioner of the Division is the final authority.

96. In the market yard which contains very good office buildings, three big tin sheds are provided for the convenience of sellers and traders. There is also a library with a radio for receiving news. The market approaches include all roads whether under the jurisdiction of the Government, the District Board or the municipality; and as all these approach roads together with those within the market yard proper have to be maintained by the Market Committee, hardly any surplus revenue is left for the Municipality. The Market Committee which is exclusively responsible for the management of the market, has four permanent sub-committees which respectively deal with disputes, audit, public works, and the checking of scales and weights. There is a permanent staff, at the head of which stands the Market Daroga who is responsible for general management, supervision, direction and control, and also for recovering market cess and license fees from Adatyas, brokers, etc. and for maintaining the regular accounts of the market funds. Buyers, dalals, weighmen are all registered and licensed by the Market Committee and have to pay an annual fee of Rs. 100, Rs. 60 and Rs. 5 respectively. The market charges are clearly defined and include Re. 1 per cart (1 to 1½ khandi of 784 lbs.) for dalali, Re. 0-1-6 per cart for weighing and Re. 0-1-0 per cart as market cess. In addition to these charges which are paid by the seller, the buyer pays Re. 0-2-6 per cart as handling charges. There is a local Dharma Committee for the maintenance of Dharmasala, Gowsala, etc. and, though the charge is optional, Dalals usually pay Re. 0-1-0 per cart to this fund. Carts have a free entrance into the market yard, but a terminal tax of Re. 0-15-0 per bale of lint is levied by the Municipality on all outward traffic either by rail or road. The total income during the year 1936-37 was about Rs. 17,000 and total expenditure Rs. 14,000.

97. The example of the Amraoti Cotton Market is interesting in many respects. Although the reconstitution of the Market Committee in accordance with the amended Berar Act of 1897 marked a definite improvement, the actual operations of the market have revealed some serious defects. The market laws, it would appear, are not strictly enforced so that much of the benefit expected from market regulation is lost. The illiterate cultivator leaves himself entirely in the hands of the Dalal who is usually inclined to favour the buyer. The obsolete practice of fixing the price under cover

of cloth by secret signs is still in vogue. Once the price is settled between the Dalal and the buyer, the cart is taken to the ginneries for weighment. After a few weighments the buyer or his broker frequently finds fault with the quality of the cotton and asks for a price reduction. The cultivator who usually comes a long way and bears all the costs of transport is usually left with no other alternative at this stage than to agree to such arbitrary demands. Although market rules provide that prices shall be fixed in the market yard, and that no deduction shall be made except when the quality of cotton is inferior to the sample on the basis of which price-fixing takes place, the general practice is to make deductions in weighment by one to four Dhadis (Dhadi—7 lbs.) from the actual weight. As regards the weighment of Kapas, there are licensed weighmen, but the system is such as to incline the weighment to favour the buyer. Worst of all, sometimes carts go directly to the ginning factories without entering the market yard at all. This is a definite breach of the cotton market rules and is punishable by law, but the Committee seems to be concerned only with the recovery of the cess due and no further action is taken.

98. Like the Amraoti market, that of Akola, first started in 1886, was reorganised under the C.P. Cotton Market Act of 1932. The average arrival of Kapas is 60,000 carts and 3,000 bojas of lint. Its organisation and management are essentially similar to those of the Amraoti Market. There are only two differences worth mentioning. As the market originally belonged to the Municipal Board, the Market Committee, according to the terms of the agreement, has to pay to the Board 15% of the gross receipts constituting the market fund and whatever surplus revenue is left after making provision for the reserve fund. In the Akola market there are separate dalals for the buyer and the seller. This is a definite improvement on the Amraoti system.

## 2. BOMBAY.

99. The Bombay Cotton Market Act of 1927 was first applied to Dhulia (1930), an important centre of cotton in Khandesh, where the average arrivals of cotton amount to 45,000 carts of Kapas and 1,000 carts of lint per year. The market contains no buildings other than the office rooms, as the Market Committee has not acquired any proprietary rights on the land owing to a dispute long pending between the Committee and the Municipal Board of Dhulia. The Market Committee which is responsible for the control and management of the market, has 14 members, including 7 representatives of

growers, 4 of local traders and one each of the Agricultural Department, the Municipal Board and the District Board. As in the case of the regulated markets of C.P., the work of the Market Committee is supervised and controlled by the district revenue officers. The Committee discharges its functions through three sub-committees, namely, Executive, Audit and Dispute. Sellers and buyers are first allowed to settle disputes amicably; and, if they fail, the matter is referred to the market superintendent who goes to the spot and tries to settle the matter. If the superintendent too fails, the case goes to the disputes sub-committee. A complaint fee of Re. 0-4-0 is charged for referring every dispute to the sub-committee. One member of this sub-committee forms the quorum and its decision is binding. The settlement of a dispute takes only one to four hours. Between 1930-31 and 1937-38 there were altogether 3,214 disputes, of which no less than 3,080 were settled by the superintendent. Prompt and impartial settlement of disputes is one of the strong features of this market.

100. Buyers, dalals and weighmen are licensed and have to pay an annual fee of Rs 10, Rs. 30 and Rs. 5 respectively. Before the application of the regulated market Act to the Dhulia market, the market charges to be paid by the seller amounted to Rs. 3-8-0 per cart of Kapas. The present charges are only Rs. 1-12-0 per cart so that there has been a 50% reduction in the charges to be paid by the seller. Further, as mentioned in the last chapter, all these charges have been clearly defined. The Municipality charges a terminal tax on outward traffic of lint, only at Re. 0-8-0 per bale of 400 lbs. The income of the market constitutes the Market Fund and is derived from the market cess (2 annas per cart), registration and licensing fees, sale of manure and grass and land rent of shops. The total annual income is approximately Rs. 7,000. The annual expenditure amounts to Rs. 5,000, the chief items being the salaries of the staff, telegrams for information on price, etc.

101. The ruling prices in Bombay and America are received by telegrams and put up at the gate for the information of the sellers and dealers. The practice of settling prices under cover of cloth is, unfortunately, still the custom. The weighment is done at the ginneries by licensed weighmen. The weights and scales are, however, regularly checked by the Government Inspector of weights and measures and stamped under the Bombay Government Weights and Measures Act. Malpractice in weighment seems to have been effectively eliminated from this market.

102. The Bailhongal market which was started in 1936, is one of the new regulated markets of the Bombay Presidency. The market yard which had been acquired by the Municipal Board and auctioned in plots to Dalals, was purchased by the Market Committee out of the Market Fund for a sum of Rs. 7,000. The market is run on lines similar to those of the Dhulia market. The main points of difference are: (1) After the examination of representative samples, an open auction is held by the Market Superintendent in a shed where buyers, dalals and sellers assemble. (ii) Final weighment and settlement of prices are done in the market yard itself before the produce is taken out, so that there is no chance of disputes subsequently arising at the ginneries. (iii) Not only the intermediaries operating in the market, but all traders within the market limits of ten miles radius from the town of Bhailehongal are licensed. Within these limits no trader is allowed to function without a license. (iv) There is a representative of the Agricultural Department, usually the local Cotton Superintendent, on the Market Committee. The Collector of the District has delegated to the Deputy Director of the Circle his powers to supervise the working of the market. In all these respects the Bailhongal market marks an improvement on many others, as is also reflected in its greater efficiency.

103. As a last example of regulated markets in the Bombay Presidency we may take the Baramati market. This market is still in its infancy and does not possess a regular fenced yard. The site is rented from the Municipal Board at a nominal rent of Rs. 5 per annum. The produce is auctioned openly in the market and is sold to the highest bidder. The weighment, however, takes place on the premises of the ginneries and subsequent disputes are not at all rare. On the whole, the interests of the growing class are much less effectively safeguarded in this market than in the other two already examined by us.

### 3. MADRAS.

104. The object of the Madras Commercial Crops Markets Act No. xx of 1933 is to secure better regulation of buying and selling of commercial crops (cotton, ground-nut, tobacco) and to establish markets for this purpose in the Presidency of Madras. The Act is administered by the local government through the Collector of the District and his staff. So far the Act has been applied to the Market of Tirupur in Coimbatore District, which is the biggest cotton market in the Presidency and handles about 1,60,000 bales of Cambodia, Karunganni, Nadam and other cotton. The Act was applied to the Tirupur

market with effect from January 1, 1936, under Section 3 of the Act, which lays down that it is not necessary to consult the municipalities or the District Boards of the area in which the application of the Act is contemplated.

105. The Market, which originally belonged to the local Municipal Board, came, in 1936, under the management of a Market Committee of 12 members including five elected by the cotton-growers, four elected by the licensees functioning in the market, one nominated by the local Municipal Board, two nominated by the Government (one being a Deputy Director of Agriculture and the other a mill-owner of Coimbatore). The life of the Committee is three years. The Tirupur Market is a decentralised market. The sales take place in the gins and shops of the merchants scattered all over the town. At present there is no one fixed market yard for business transactions. The functionaries are licensed and the market charges are regulated. In 1936 and 1937 altogether 86 and 70 licenses were issued. In other words, in those years there were 86 and 70 market places respectively, where transactions in cotton could take place. The fee for such a license is Rs. 50. It is the object of the Government to reduce step by step the number of licenses issued and gradually concentrate the whole market in one particular place. A beginning has already been made in this direction inasmuch as the Market Committee has purchased the Holmes Cotton Market.

106. The Market Committee elects its own Chairman and carries on its functions through five sub-committees (Executive, Dispute, Control, Audit and Repairs). As regards the staff, the most important feature is the appointment as Secretary to the Market Committee, of the local Senior Agricultural Inspector. His services have been lent for three years, for which the Committee has to pay. The appointment of such an experienced man was necessary as it was the best guarantee that, during the early stages of the new regulated market at Tirupur, all experiments would be carried on along right lines and thereby ensure its ultimate success.

107. The Secretary of the Market receives information from Bombay on the price ruling in New York, Liverpool and Bombay, twice a day by telegram. These prices are duly published and copies circulated to all parties interested in the market. The information received from Bombay constitutes the basis for the settlement of prices. As there is no fixed market yard, the carts go to the shops of brokers and gins where actual sales take place. The cotton is usually delivered to the premises of the buyer. Every weighman must have a licence from the Market Committee and, as they are all paid servants of the licensees, no charge is allowed for weighment.

Weights and scales of traders are checked now and then from shop to shop by the Control Sub-Committee or by any of its members at any time. The marketing charges, before the Act was applied to Tirupur, worked out at 8 annas and 280 lbs. of Kapas and Rs. 1-5 on 520 lbs. of lint. The present charges have been fixed at the following level: (i) brokerage—6 annas per candy of 784 lbs. of Kapas or 12 annas per candy of 784 lbs. of lint; and (ii) market cess—4 annas per candy of 784 lbs. of lint and 3 annas per candy of 784 lbs. of Kapas. That there has been a solid reduction in the incidence of the market charges, is evident from these figures. Unless cotton is delivered to the premises of the buyer an additional charge of 6 annas per candy has to be paid by the seller.

108. The income of the Committee constitutes the Market Fund and is derived from registration fees, licensing fees, market cess and other miscellaneous items. In 1936 and 1937 the total receipts amounted to Rs. 25,000 and Rs. 26,500 respectively. The main items on the expenditure side are the establishment costs and the market news service. The total expenditure amounted to Rs. 12,000 in 1936 and Rs. 12,500 in 1937. In other words, in both years receipts were double the amount spent.

109. While the Bombay and the C.P. Acts are confined to cotton and that of Madras to "Commercial Crops" (or in practice, to cotton, groundnut and tobacco), that of Hyderabad deals with all agricultural commodities. In this respect the Act, therefore, represents an improvement on the other three because it tries to protect the interests of the cultivator all along the line. Usually several commodities are dealt with in the market; and if the legislation were to provide the cultivator protection in respect of one particular commodity, dealers would, in all probability, make good whatever they might lose on the controlled commodity by widening the profit margin to be realised from transactions in commodities which are not controlled. The Hyderabad Act, unlike that of the C.P., Bombay and Madras Acts, was originally administered by the Director-General of Commerce with the help of the District Officers. Later, when a separated Marketing Section was formed, the Marketing Officer, the head of this section, was made responsible for the administration of the Act. At present there are about ten regulated markets working under this Act.

110. The Raichur market was constituted in 1339 F., i.e., four years after the new legislation was passed. Before the application of the Act, the market was controlled by the Municipal Board. Transactions were carried on in any part of the Raichur bazaars. The Municipal Board charged a terminal tax

of 4 annas without, however, providing for any amenities. A market cess of Re. 1 per cart was levied in order to create a Market Fund. There was a good deal of opposition at the outset, which was later on overcome, thanks to the tact, patience and propaganda of the collector. The present limits of the Raichur market have been fixed with a ten miles radius from the Collectorate of Raichur. The market is managed by a committee of 12 members, six of them being representatives of the growers, four of traders, one of the local Municipal Board and one a nominee of the Government, i.e., the Collector of the district. It has to be reconstructed every two years. For the use of the market place the committee has to pay to the Municipality half of the income realised from the market cess.

111. A sub-committee of three members (two representatives of growers and one of traders) is supposed to control the activities of the market. In actual practice, however, most of the work is done by the market superintendent, including settlement of disputes, which very seldom go before the sub-committee, and still more rarely to the Market Committee. The buyers, *Kachcha dalals*, weighmen and measurers are registered and licensed and have to pay specified fees. As in the Bombay Act, all market charges payable by the seller and the buyer, have been carefully defined. A Dharmada is collected by the Market Committee from the dalals every month. A special charity committee consisting of two members from the Market Committee and two from the licensees is in charge of this fund which is allotted to various charitable institutions and schools. The Municipal Board charges 4 annas as the terminal tax per cart on all carts entering the Municipal area. The total income derived from the market cess, payable to the Municipal Board, does not exceed Rs. 7,000, thus leaving a handsome surplus which could be utilised for financing further improvement in the market.

112. The Warangal market closely resembles that of Raichur in its organization and working, although its lay-out is not so good. The market limits are fixed with a six-mile radius from the centre. All kinds of commodities are dealt with, such as ghee, oils, cakes, chillies, cotton, oilseeds and grains. The market place originally belonged to the Municipal Board. After the application of the Act, it has been let out to the Market Committee. As in the case of the Raichur Market, the latter has to surrender half of the receipts from the market cess, which amounts to a sum of Rs. 7,000 a year. Also in this case, the establishment of a regulated market with the levy of the market cess (two annas per cart) caused at first a good deal of public agitation which was gradually overcome by the Collector.

## SOME TECHNICAL CONSIDERATIONS.

### CHAPTER VIII.

#### STANDARDIZATION OF WEIGHTS & MEASURES

113. All writers, official or non-official, on agricultural marketing in India, have drawn attention to the absurd multiplicity of weights and measures. The Royal Commission on Agriculture<sup>1</sup> found that in sixteen markets of the East Khandesh districts of the Bombay Presidency, the maund had thirteen different values ranging from 21½ seers at Bodwad to 80 seers at Pachora. The Indian Cotton Committee pointed out to the Commission that, over the greater part of the Bombay Presidency, cotton was bought and sold on the basis of a Khandi of 784 lbs. of lint, which was, in consequence, known as the Bombay Khandi. In the south of the Presidency, the Unit was a nag of 336 lbs. In Khandesh, the Khandi varied from 160 to 250 lbs. The Madras Khandi was only 500 lbs. of lint, but in the tract in which "Western" cotton was grown, the unit was the nag of 312 lbs. At Cawnpore, there was a special cotton maund of 50 standard seers, that is, about 103 lbs., both for lint and kapas. In other parts of the United Provinces, the standard maund of 82-2/7 lbs. was generally used for Kapas, lint being sold in bales of 400 lbs. Again, in the Jhelum districts of the Punjab, there were six different measures by which grain was bought and sold within an area of sixty square miles.

114. The chaotic state of weights and measures in India has been more clearly brought out in all the reports recently published by the Central Marketing Staff. "Weights made of sticks, stones, and bits of old iron are a common feature in the markets and villages. A seer may range from 31 tolas to 102 tolas as in the Punjab, a paseri which is five seers, may range from 5 to 9 seers; and the maund may go up to 64 seers as in parts of Bihar and Orissa. Even the tola—normally the weight of one rupee—is not always the same".<sup>2</sup>

The Wheat Report contains a photograph of the weights and measures and scales used in India, which vividly brings

1. Report of the Commission, p.396.

2. Wheat Report, p.94.

home this absurd state of affairs. The reports on linseed and tobacco have brought together a mass of details on the wide variations in the weights and measures employed, for which it would be difficult to find a parallel in any other country.<sup>3</sup>

115. This multiplicity of weights and measures employed in India has deplorable effects in several ways. Firstly, it affords greater opportunities for cheating the ignorant cultivator, and unscrupulous dealers readily avail themselves of such opportunities. Secondly, it gives rise to needless complications in practice as between one market and another which is by no means conducive to the interests of trade and commerce. Thirdly, for the collection of data on price movements, the relative level of prices in different regions, the volume of agricultural production, etc., lack of standard weights and measures is bound to be a great handicap and seriously affect the accuracy of statistical calculation. Nobody would question the advantage of having only one unit of currency in terms of which prices can be expressed in different parts of the country. The advantages of having a uniform currency are, however, partially lost if weights and measures are not standardised; for a particular set of prices, though expressed in terms of one currency unit, will lose much of its value in the absence of any uniformity in the units employed to measure the quantities of commodities whose prices are given.

116. In view of the urgency of the issue it is strange that reform in this sphere should have been delayed so long. In 1913, the Government of India appointed a Committee to investigate the subject. The committee recommended, among other things, that the maund should be declared the standard weight of India. No action was, however, taken by the Government of India and matters were left where they had stood before the appointment of the Committee. The Royal Commission on Agriculture devoted, as was but natural, serious attention to the subject and pressed for immediate reform. We have already seen that in the regulated markets provision was made for inspection, verification and correction of scales, weights and measures. The Cotton Ginning and Pressing Factories Act empowered local Governments to make rules prescribing the weights and scales to be used in these factories and make arrangements for their inspection; and such rules were made in several provinces. The Bombay Government was, however, the first to take active steps to put an end to the intolerable state prevailing in respect of weights and

3. See Linseed Report, pp. 256-80 and the Tobacco Report, pp. 358-7.

measures. The Bombay Weights and Measures Act was passed in 1932 (See Appendix to this chapter). In March 1936 it was made applicable to the whole province. It is expected that in the near future all the old bazaar and village weights will disappear. Incidentally, the administration of the Act has not only involved no extra expenditure, it has actually proved to be a source of income to the local Governments.

117. According to item 51 in the Federal Legislature List in the seventh schedule to the Government of India Act of 1935, the Central Government is responsible for the establishment of standards of weights, while Provincial Governments are concerned with 'weights and measures' (item 30 in the Provincial Legislature List). The Legislative and Executive authority of the centre is, therefore, confined to the establishment of standards of weights, while the enforcement of the use of weights based on these standards is a matter for the Provincial Governments. Accordingly, a "Standards of Weights" Act was passed by the Central Legislature, which received the assent of the Governor-General on 28th March 1939. The Act will be brought into force as soon as the necessary rules under it have been framed. (The full text of the Act will be found in the Appendix to this chapter.)

118. This Act has undoubtedly been a step in the right direction and constitutes a landmark in the process of establishing uniform weights and measures throughout British India. The Act will soon come into force, but the realisation of the objective will largely depend on the initiative taken by the provincial governments on the basis of this Act. As regards the progress in the provinces, we have referred to the Weights and Measures Act of 1932 which, in an amended form, is now in force in the provinces of Bombay and Sind. The question of introducing necessary legislation is now under consideration in all other provinces. Even after such legislation is passed in the provinces, it will not be an easy matter to overcome the force of trade custom and local tradition. In the provincial legislation some allowance will have to be made for such custom or tradition. Although the adoption of uniform weights and measures all through the country should be our ultimate aim, their standardisation within provincial limits will be a big step forward and will pave the way for the ultimate realisation of that aim. Any laxity in the enforcement of such provincial legislation will, however, neutralise much of its benefit. While stringent rules should be laid down for enforcing such laws as may be enacted by provincial governments, it would at the same time be necessary to educate the public, particularly the cultivating classes, and

convince them of the solid advantages which the adoption of standard weights and measures would bring in its wake. In education of this kind, and the intelligent and vigilant watch on the part of the cultivator over his own interests resulting therefrom, lies the most effective guarantee that laws passed by provincial legislatures will be actually enforced in practice.

119. As regards the financial aspect, we have seen that the administration of the Bombay Act has not only been self-supporting but has actually left a substantial surplus. In this connection a reference may be made to a striking feature of the Act passed in Burma about twelve years ago for the regulation of weights and measures. Villagers had to meet the cost of equipping village committees with standard weights and measures; and for this purpose a tax or a cess was imposed on lands assessed to land revenue. There was a twofold motive behind this policy. If the Government were to supply weights and measures free of charge, it would have involved considerable expenditure from the public treasury, while the cost, when distributed over all villages, meant only a small amount for each village. At the same time its collection from the people served as a very effective advertisement of the fact that standard weights and measures had been provided. A similar procedure might be usefully adopted also by the provinces of British India after the necessary legislation has been passed.

120. Regulated markets will prove a valuable medium for educating the public in the use of standard weights and measures. In fact, one of the main objects of such markets is to put an end to the dishonesty in weighment, as a result of which the cultivator often incurs serious losses. Even in the existing regulated markets such malpractices are by no means absent and fraudulent weighment remains one of the most fruitful sources of disputes. The Royal Commission on Agriculture recommended that in every regulated market a weigh-bridge should be installed and suitable arrangements made for its use. The cultivator should be allowed to weigh his cartload of produce and also the cart after it is emptied, whenever he chooses to do so, and should be given, free of charge, a certificate for these weighments which must be regarded as final by all parties doing business in that market. The Commission was of the opinion 'that the provision of such weigh-bridges should be made compulsory even in unregulated markets, and that the local governments should take the necessary powers to deal with this question.' We entirely endorse these recommendations including the installation of

weigh-bridges in unregulated markets. It will necessarily take a good many years before regulated markets can become a common feature in this country. There is, however, no reason why some of the most urgent reforms should not be attempted even in places where full fledged regulated markets cannot be established for a long time to come. In fact, such reforms will, though in a piecemeal fashion, anticipate some of the functions of the regulated markets, and thereby pave the way for introducing such markets at a subsequent stage. The easiest and the most urgent reform which can be attempted immediately relates, in our view, to weights and measures whose abuse is a common feature in local trade. To take an example, Bolpur on the E.I.R. loop line is an important rice market. Clustered together in this small town there are about 20 rice mills which draw their supply of paddy from villages lying within a radius of ten to fifteen miles. It is an open secret that one of the major sources of profit to these rice mills is the margin by which the quantity of paddy bought by mills exceeds the number of nominal maunds for which the cultivator has actually been paid. One frequently hears in this locality that a particular rice mill bought so many thousands of maunds of paddy and, on reweighing, found that the quantity had in the meantime increased by so many hundreds of maunds.

121. The installation of weigh-bridges or the introduction of licensed weighmen with necessary arrangements for inspecting, verifying and rectifying the weights and measures in use, can go a long way in stopping some of the trade abuses which have become much too common. This would also facilitate the ultimate switch-over to standard weights and measures when they are introduced on the basis of provincial legislation. In villages proper the difficulties are in certain respects greater. The cultivator is so ignorant that at times he is incapable of doing some of the simplest calculations and a shrewd trader is not slow to take advantage of his helplessness. Any village organisation, e.g. a primary co-operative society, could improve matters if it were to keep an official set of scale, weights and measures which could be utilised by any villager. In that case, before taking his produce to the middleman or to a bazaar, he could weigh his produce personally or through some licensed weighman and thus ascertain the exact weight of his produce before meeting the purchaser. He would thus become more weight-conscious, as it were, and, consequently, it would no longer be so easy to cheat him in weight as now.

122. In all attempts to standardise weights and measures in India, the question of the advisability of adopting the metric

system has not even been raised. The omission is conspicuous and can be explained only by the fact that in this country we tend to follow too closely in the footsteps of Great Britain which, mainly owing to its traditional conservatism, has so far shown little inclination to adopt this system. Nevertheless, the metric system has got at least two very strong arguments in its favour, namely, that it would mean an enormous simplification in calculation, a point which should not be overlooked, as every modern economy involves a great deal of statistical calculation, and, secondly, that it has already been adopted by a large number of countries so that it would facilitate all international comparisons in the economic sphere. We, therefore, suggest that, at a suitable stage, the question whether it would be feasible or not to adopt a metric system of weights and measures, incidentally also a metric unit of currency, e.g. a metric rupee, should be seriously considered by the authorities in this country.

Appendix to Chapter 8:

(a) The Standards of Weight Act, 1939.

An Act to establish standards of weight throughout British India.

ACT NO. IX OF 1939.

SHORT TITLE, EXTENT & COMMENCEMENT.

Whereas it is expedient to establish standards of weight throughout British India:

It is hereby enacted as follows:—

- I. (1) This Act may be called the Standards of Weight Act.
- (2) It extends to the whole of British India.
- (3) It shall come into force on such date as the Central Government may, by notification in the official Gazette, appoint.

UNIT OF WEIGHT.

- II. (1) The unit for weight shall be the standard grain, that is to say, that weight which when multiplied by 1799.84585 is the weight *in vacuo* of the iridio-platinum cylinder in the custody of the Mint Master, Bombay, certified by the Standards Department of the British Board of Trade as having a weight of 1799.84585 grains *in vacuo*.
- (2) The standard grain shall be the only unit from which all other standard weights shall be ascertained.

- III. (1) There shall be the following standard weights, namely:—
  - (a) the standard seer, being a weight of 80 standard grains;
  - (b) the standard seer, being a weight of 80 standard tolas or 14,400 standard grains;
  - (c) the standard maund, being a weight of 40 standard seers;
  - (d) the standard pound, being a weight of 7,000 standard grains;

- (e) the standard ounce, being one-sixteenth part of the weight of a standard pound;
- (f) the standard hundredweight, being a weight of 112 standard pounds;
- (g) the standard ton, being a weight of 2,240 standard pounds.

(2) No weight other than the weights set forth in sub-section (1) and integral multiples or sub-multiples of any such weight shall be used as a standard weight.

(3) The Central Government shall cause similar sets of weights, similarly authenticated, to be prepared, and shall supply one set to the Government of any Indian State or foreign settlement situated in India which applies for it and pays the price fixed by the Central Government.

**IV.** (1) The Central Government shall cause to be prepared one set of such of the standard weights specified in sub-section (1) of section III or multiples or sub-multiples thereof as the Central Government may consider expedient, and shall cause such weights of such set to be authenticated as having been ascertained from the standard grain, and shall deposit the set in such custody as the Central Government may think fit.

(2) The Central Government shall cause similar sets of weights, similarly authenticated to be prepared, and shall supply one set to each Provincial Government.

#### RULES

**V.** (1) The Central Government may, by notification in the official Gazette, make rules for carrying into effect the provisions of this Act.

(2) Without prejudice to the generality of the foregoing power, rules made under this section may regulate

- (a) the preparation of the sets of standard weights referred to in section 4;
- (b) the custody of the set of such weights which is to be maintained by the Central Government and the periodical verification and adjustment thereof;
- (c) the periodical verification and adjustment of the sets of standard weights supplied to Provincial and other Governments.

**REPEAL.**

VI. The Indian Weights and Measures of Capacity Act, 1871, in so far as it relates to the establishment of standards of weight of 1871 is hereby repealed.

**Appendix to Chapter 8:**

(b) Notes on the Bombay Weights & Measures Act, 1932  
(Bombay Act No. XV of 1932).

1. The weights and measures including the multiples and sub-multiples of the following units are called standard weights and measures for the purposes of this Act:—

**WEIGHTS:**

The Bombay tola of 180 grains.

The Bombay seer of 80 tolas.

The Bombay maund of 40 seers.

The sub-multiples  $\frac{1}{2}$ ,  $\frac{1}{4}$ ,  $1/8$ ,  $1/16$  and  $1/32$  and the multiples 2, 4, and 8 of the tola, seer and maund.

The pound avoirdupois equal to 7,000 grains and the sub-multiples  $1/8$ ,  $\frac{1}{4}$ ,  $\frac{1}{2}$ , 1, 2, 4 and 8 ounces, the multiples 1, 2, 4, 7, 14, 28 lbs. (a quarter), 56 lbs., 112 lbs. (1 cwt.), and 2,240 lbs. (1 ton).

N.B. The standard grain is defined in the same way as in the Standards of Weight Act, 1939 (see ante).

**DRY MEASURES:**

The Bombay seer.

The sub-multiples  $\frac{1}{2}$ ,  $\frac{1}{4}$ , and  $1/8$  seer.

The Bombay chatak=  $1/16$  seer.

The adpao=  $1/8$  seer.

The adholi= 2 seers.

The Bombay payali of 4 seers.

The Bombay maund of 16 payalis.

The Bombay map of 2 maunds.

**LIQUID MEASURES:**

The Bombay seer.

The sub-multiples  $\frac{1}{2}$ ,  $\frac{1}{4}$ ,  $1/8$ , and  $1/16$  seer.

The multiples 2, 4 and 8 seers.

The Imperial gallon.

The pint=  $1/8$  gallon.

2. Government may, after previous publication by notification in the official Gazette, declare either generally or for any trade or class of trades:—

- (a) any other multiple or sub-multiple of a weight or measure specified above, or
- (b) any other weight or measure, or any multiple or sub-multiple thereof, to be a weight or measure authorised to be used in any place in which this part of the Act has come into force. The weight, measure, multiple or sub-multiple shall, to the extent so declared, be deemed to be a standard weight or measure for the purposes of this Act.

3. Detailed provisions have been made in the Act with regard to primary standards, custody of primary standards, secondary standards, custody and verification of secondary standards, working standards, weighing and measuring instruments, duty of certain municipalities and local boards to provide and maintain secondary standards etc., prohibition of weights and measures other than standard weights and measures.

4. Similarly the Act lays down the conditions for verification and stamping of weights and measures, and also prescribes the various penalties for any contravention of the provisions of the Act.

5. For carrying into effect the purposes of this Act, the Government of Bombay have framed elaborate rules which are available in the form of a separate volume called 'Bombay Weights and Measures Rules, 1934 (62 pages)'.

## CHAPTER IX.

### STANDARDIZATION AND GRADING OF AGRICULTURAL PRODUCE.

123. The Royal Commission on Agriculture investigated the position of the Indian agricultural products in the world's markets, and came to the conclusion that much of the produce was marketed in an unsatisfactory condition. In spite of the work of the Indian Central Cotton Committee, adulteration, mixing and damping, particularly the mixing of short with long staple cotton, prevailed to an undesirable degree. Bad rating, bad grading and selection and excessive moisture were characteristic of much of the jute exported. The case of hemp was worse still. The decortication of groundnuts in a wet state was common. The position with regard to oil seeds other than groundnuts appeared satisfactory, and Indian linseed was preferred to that from any other country. As regards wheat there were conflicting reports, but there seemed to be scope for improvement.

124. To secure the full premium for quality is always a difficult matter. For there is almost a universal tendency on the part of buyers to offer a flat uniform rate for good and poor quality alike. The high grade quality, as has been aptly put, subsidizes low grade supplies. The incentive to grow improved quality is weakened if the cultivator fails to secure the full premium due to him for the superiority of his produce, nor can he have any inducement to market it in the proper condition unless that in its turn brings him a sufficiently higher price. It is, therefore, necessary to educate the consumer to appreciate any superiority in the quality of the produce and make due allowance for it in the price paid by him. Organisation for sale, particularly on a co-operative basis, would be an effective method of eliciting a higher price from the consumer when such a price is justified by the quality of produce. Auction sales may at times prove to be a useful means of achieving the same end, especially when improved varieties are grown under the supervision of better-farming societies or of the Agricultural departments.

125. The more immediate problem in India, as the Commission recognised, was to improve the condition in which her agricultural produce was marketed, because this in itself would bring the cultivator a higher price than he usually received with the widespread practice of mixing and adulteration. The

elimination of such practice would by itself mean an appreciable improvement. The cultivator, as the Commission pointed out, in general obtained better prices for the quality of his money crops which were mostly destined for foreign consumption than for those which were consumed internally. This was to be attributed to two factors: The consumers overseas betray a greater readiness to pay a higher price for a better quality while the large-scale distributor engaged in the export trade is, as a rule, more efficient than the petty local trader. We have, however, seen above that even those commodities which are not meant for foreign consumption are not always exported in a condition which can be regarded as satisfactory. In the interests of the export trade the Government in certain countries have taken steps to ensure that its exported articles are properly graded before they leave the shores of the country. For example, in the United States of America, grading under government regulation and enforced by the Federal department of Agriculture through inspecting officers, either at the ports of shipping or elsewhere, plays an important part in the marketing for export of the various agricultural products. The grading of hemp in New Zealand and of fibres for export from the Philippines is controlled by the agricultural departments of these two countries. The Commission, however, thought that, owing to administrative difficulties involved in the procedure, it would be premature to introduce it into India. It, therefore, relied in the main on organised trade associations for the enforcement both at home and abroad of better grading of India's agricultural produce.

126. The Central Marketing Staff has already taken some decisive steps to give practical effect to the above recommendations. On the basis of the preliminary work done by the staff, the Central Legislature passed the Agricultural Produce (Grading and Marketing) Act of 1937. The Act provided for the fixing of grade designations to indicate the quality of any scheduled article of agricultural produce, for defining standards of quality and specifying grade designation marks. Consultations with provincial governments and representative trade and manufacturing interests were carried on with a view to ascertaining what articles could be usefully included in the original schedule of products. By March 1939, the schedule came to cover fruits, vegetables, eggs, dairy produce, tobacco, coffee, hides and skins, fruit products, tea, oilseeds, vegetable oils (including hydrogenated oils and vegetable fats), cotton and rice. In respect of most of these commodities, rules have been duly prepared and notified.

127. Experimental grading stations have been opened or established by packers authorised in accordance with the rules

under the Act. The number of grading stations is on the increase. At the end of March 1939, the stations in operation were distributed as follows: eggs 36, hides 10, ata 2, tobacco 3, fruits 27, ghee 53, and rice 3. There were altogether 18 authorised packers for eggs, 6 for fruits, 10 for tobacco and 14 for ghee. The produce graded and marked at these 134 centres were sold under the AGMARK, the emblem used to distinguish the standard products. Besides samples of sugar, gur, etc. of butter, ghee and wool have continued to be analysed.

128. Although experiments in grading have been carried on for a relatively short time, the results achieved up till now have been encouraging. According to the annual reports of the marketing staff, experiments have been most successful in the case of ghee and eggs. Nevertheless, what has been achieved so far is very little as compared with the task which lies ahead. The total value of the produce graded and packed at the 134 centres till March 1939 and sold under the AGMARK amounted to about half a crore of rupees. When it is remembered that the value involved in transactions on ghee alone is between 80 and 100 crores of rupees, it becomes clear what a vast field will have to be covered if all the agricultural products now brought to the market, were to be properly graded and marked before they are sold.

129. At the conference of Ministers on Agricultural Marketing, held in November 1938, the following resolution on the experimental grading stations was adopted;

Resolved:

(a) that when the experimental grading and marking of any particular commodity has proved beneficial, the original stations may be taken over by Provincial and State Governments, and more grading and packing stations should be established by them as soon as possible;

(b) that in order to ensure adequate control of quality early steps should be taken in Provinces and States for the authorisation of a sufficient number of suitable persons (e.g. marketing, agricultural, and veterinary officers and market superintendents) in the course of their other duties to inspect graded produce.

Provincial and State Governments have been taking over some of these grading stations. The process has, however, been a slow one. Where grading has proved profitable, the multiplication of such stations could be expedited. In any case, the efforts of the Central Marketing Staff should, at as early a stage as possible, be supplemented by the active initiative of Provinces and States, if the work is to proceed at anything like a satisfactory pace.

## APPENDIX TO CHAPTER IX:

### NOTES ON THE WORKING OF THE EXPERIMENTAL GRADING STATIONS NOW IN OPERATION.<sup>1</sup>

**HIDES:** Altogether 300,000 hides, valued at about 12 lakhs of rupees, had been graded. With the introduction of grading, the quantity of hides has definitely improved in regard to cut and flay marks. A peripatetic grading demonstration party was introduced in the United Provinces with a view to educating flayers in rural areas in the method of grading. This party conducted demonstrations at urban slaughter houses in Lucknow and Cawnpore and graded 2,510 hides. It is interesting to note that a small consignment of graded hides shipped to Syria obtained a premium of 2½% over un-graded ones.

**EGGS:** Since the grading operations were started, about 11 million eggs valued at more than two lakhs of rupees have been graded. Experiments in egg grading have shown that the producers and merchants can, as a result of grading, obtain increased cash return of about 5%, after allowing for the extra cost involved in grading.

**FRUITS:** The orange packers at Nagpur graded 7,720 packages of oranges during the year ending in March 1939 as against 7,000 during the preceding year. The graded fruits brought an increased return of 7.4 per cent over ungraded fruits. Experiments conducted at Nagpur on improved type of containers for packing oranges showed that the fruit kept better in these containers and fetched an enhanced price of 8 annas per basket in some cases.

The Grape Growers Society at Sheikh Mohammadi, N.W.F. Province, secured an increased return of 29.9 per cent on the sale of graded AGMARK grapes during 1937 season. During the 1938 season they graded about 48,000 pounds of grapes valued at Rs. 6,000. At another grape grading station started at Gulistan (near Quetta), an increased return of 21.4 per cent was realised by the sale of graded AGMARK grapes. Peaches were also graded here and secured a premium of 64.1 per cent over ungraded ones.

In order to keep costs of grading at a minimum, experiments were carried on in hand-grading. Mozambi—oranges were hand-graded at Rahuri. 14,550 dozen fruits were handled and secured an increased return of 5.6 per cent in comparison

1. See annual reports of the Agricultural Marketing Adviser.

with ungraded fruits. Three firms in Kashmere hand-graded 1,887 packages (20 seers each) of apples, valued at about Rs. 8,000 with the result that merchants realised 16.5 per cent more on graded fruits sold under the AGMARK without incurring any extra expenditure on handling. Experiments on the grading of mangoes at three stations resulted in a premium of 24.1%, 1.5% and 1.4% respectively.

**TOBACCO:** As a result of 578 bales of graded tobacco exported to the United Kingdom by the Indian Tobacco Association, Guntur, the whole trade is now unanimous that in future tobacco should be exported only on the basis of the AGMARK grades.

**ATA:** Experiments in the grinding and sale of graded ata carried on at Delhi and Lahore under the supervision of the local marketing staff, have clearly shown that there is a good demand for a genuine commodity bearing the AGMARK.

**RICE:** An experimental rice grading station will soon be started at Sheola (Dehra Dun) with the co-operation of the Dehra Dun Basmati Rice Producers' Co-operative Society Ltd.

**GHEE:** The scheme for the grading and marketing of ghee has been popular with producers and consumers. Ten firms melted and graded about 31,000 maunds and sold 29,000 maunds of AGMARK ghee valued at about 15 lakhs of rupees. AGMARK ghee has realised a premium of 8 per cent as compared with the ordinary ungraded market ghee.

## CHAPTER X. MISCELLANEOUS CONSIDERATION.

### (a) Standard Contracts.

129. In the last chapter we have seen how physical grading and packing of such commodities as fruits, eggs, etc., on the basis of statutory standards helps the cultivator in obtaining a premium for quality. For staples such as cereals and oil seeds one of the most effective ways of securing this premium is to standardise the terms of contract. With this object in view the Central Marketing Staff has been holding consultations and conferences with associations of traders and manufacturers. Appreciable progress has, in the meantime, been made towards the general adoption by the trading community of the standard contracts drawn up for wheat, linseed and groundnuts. Some of the interests proved obdurate in Bombay and Calcutta so that the Ministers for Agriculture had to throw out the hint that if agreement on a voluntary basis were not arrived at, the application of statutory sanction would have to be considered.

130. The most important object of standard contracts as drawn up by the Central Marketing Staff is to obtain a premium for producers of good quality through a mutual or reciprocal scale for produce higher or lower than the basis. At the same time such contracts serve to check the present tendency of putting produce containing excessive dirt on the market as only a very small amount of refraction (impurities) is allowed in the basis laid down in the standard contracts. In the case of linseed sent to Calcutta alone the extra cost of weight on dirt together with the cleaning charges is estimated at 3 lakhs per annum. The cleaning charges at Karachi on wheat is supposed to be in the neighbourhood of 4 to 5 lakhs of rupees a year. These expenses would very largely be avoided if the new contract were adopted. Besides the terms devised would facilitate future trading and bring about an improvement in the system of price quotation. Nor should we overlook the consideration that the standardisation of contract terms in general promotes more rapid and efficient inter-trading between different parts of the country and with buyers abroad.

131. The Agricultural Commission, we have seen before, laid special stress on the assistance which organised trade associations could render in securing improved quality by bringing pressure to bear on the producing class. There is,

however, still need for the formation of such associations in India. As a result of the efforts of the Central Marketing Staff, the Tanners' Federation of India and an Indian Tobacco Association have been formed. Attempts are also being made to constitute a federation of the ghee and oil-seed trade associations and allied interests. Sometime ago negotiations were conducted with grain and oil-seed associations of the United Kingdom with a view to the adoption of standard contract terms for produce exported from India. As a result there has been a growing appreciation of the need for founding corresponding associations in India which alone could effectively negotiate with foreign associations.

**(b) Marketing News:**

132. The Agricultural Commission had recommended that steps should be taken for a better dissemination of the marketing news. The marketing surveys conducted under the direction of the Central Marketing Staff have shown that there is at present a surprising lack of co-ordination as between different markets. Prices do not move in harmony even in markets which are not far from each other. We often find a market glutted with a produce which is scarce in another, perhaps only a few miles off. While difficulties of communication are largely responsible for such marked differences in the prices ruling in different markets, there cannot be any doubt that lack of reliable and timely information also accounts, at least partially, for such divergent price movements.

133. The Central Marketing Staff, therefore, prepared a tentative programme for disseminating market news. At present there are two broadcasts from Calcutta, one in Bengali and the other in English, given in the afternoons and evenings. Information is supplied on stock exchange prices, prices of jute, of cotton from Bombay, and of shellac. At Bombay, daily broadcasts give the Liverpool and Bombay cotton rates as well as the Bombay prices of bullion, wheat, linseed, castor seed, groundnuts and the closing stock exchange quotations. From Delhi, the rural programme in the evenings include prices of cereals, the ready and future prices of wheat, gram and barley at Hapur, as supplied by the office of the Agricultural Marketing Adviser, livestock prices derived from the same source, quotations for gold and silver, as well as for vegetables. Arrangements have been made with the Indian Central Cotton Committee to broadcast cotton prices for selected markets in the Central Provinces. In addition, a weekly market report in English and Hindusthani is broadcast every Sunday and issued at the same time to over 100 newspapers.

134. A beginning has then been made for the supply of marketing news, but only a beginning. For a good deal of work will have to be done before the interests concerned could derive full benefit from these news services. Lack of sufficient education among the cultivating classes is undoubtedly a serious handicap. The number of receiving centres is at present far from being adequate. Unless weights and measures are standardised, price figures for comparison cannot be easily intelligible. Besides, unless growers develop the habit of bringing their produce to the market for sale instead of disposing of it to a middleman in the village, they will hardly gain much from the news service. Here again our best hopes are intimately connected with the growth of properly regulated markets. Such markets will act as a strong incentive to the grower to bring his produce himself to the market. Besides, the staff of such regulated markets can do a great deal by way of interpreting the marketing news to the producer. For example, those parts of the news in which a market is directly interested can be prominently posted up in a way which would be at once attractive and intelligible to him. Lastly the competition among brokers coupled with the method of open bargaining, which alone should be allowed in a well regulated market, would be a fairly reliable guarantee that the best possible prices would be offered to the cultivator when brokers themselves are kept better informed by such news service about market conditions elsewhere.

135. At the conference of Ministers on Agricultural Marketing, to which reference has already been made, the question of market news service came up for discussion. The resolution passed on the subject is given below:

Resolved:

(a) that the Central Marketing Staff should continue to collect and disseminate information regarding prices, supplies, and stocks in important markets of those commodities which figure prominently in the export and import trade of India as a whole or of a number of Provinces and States and

(b) that the Provincial and State Marketing Staff should make arrangements for collecting and recording commercial prices for commodities of local importance—particularly in 'key' markets—and for disseminating news regarding prices, supplies and stocks to smaller country markets and to producers in rural areas.

(c) "Future Market".

136. In a modern economic system speculators have a legitimate function to fulfil. By judiciously anticipating the

probable movements of prices, they can narrow the margin between the present and future prices and thereby contribute to the stability of the market. On the other hand, unless they discharge these functions with a due sense of responsibility and keep their speculation on the trend of future prices within limits dictated by a close investigation of all relevant economic forces, they can very easily bring about the opposite results. Reckless gambling about the future rise and fall of prices, widens the margin within which prices fluctuate; and it introduces an element of uncertainty into the market, which has a demoralising effect on trade and commerce. How to retain the advantages of legitimate speculation or risk-bearing and at the same time prevent it from degenerating into gambling, pure and simple, is one of the major problems with which every country is confronted today. In India the question of curbing the irresponsible speculation has of late come more and more to the forefront. It would, however, carry us too far to undertake an investigation into this subject. Besides, remedies will vary according to the conditions prevailing in a particular locality. They may also call for specific rules and regulations with regard to the speculation on particular commodities. We believe, however, that the steps recommended in this report to bring about a much greater order in the system of marketing agricultural produce, viz., standardisation of weights and measures, careful regulation of markets, warehouse facilities, standardisation and grading of commodities, standardisation of contract terms, better dissemination of marketing news etc. will go a long way in keeping speculation within narrower limits than is the case at present. Even then some special steps will very likely be necessary to check patent abuses. It is, therefore, gratifying to note that the subject is now under examination by the Central Marketing Staff in accordance with the following resolution adopted at the conference of Ministers on Agricultural Marketing in India:

“Resolved that with a view to the elimination of “fatka” (satta), markets of the gambling type, and the establishment of proper ‘futures’ markets controlled by large, financially sound and stable associations operating on a non-profit-sharing basis, the Central Government should examine at an early date the possibility of Central legislation controlling the conditions of ‘futures’ trading in Agricultural produce”.

#### (d) Correlation between Production and Marketing.

137. The market for Indian Produce can be considerably extended if sufficient attention were paid to the type, quality

and quantity of produce put on the market. Any increase in the supply of long staple cotton in this country will find a ready market. The Central Cotton Committee has been endeavouring to stimulate the production of long staple cotton. It is, however, not generally recognised that with regard to most other commodities, there is similar scope for extending the production of selected types for which there is a potential demand in the market. For example, hard wheat commands a higher price than soft; "bold" linseed would fetch a premium over small. Similarly there are pronounced market preferences with regard to such commodities as wool, tobacco, fruits, etc. The flue-cured Virginia tobacco grown in the Guntur district commands a price of about Rs. 200 per candy of 500 lb., while ordinary sun-cured country tobacco sells only at Rs. 50 per candy in the same district, and there is a difference in price of as much as annas 2 to annas 4 per lb. between the first grade and the second grade of virginia tobacco.

138. It could no doubt be argued that such price differences would, by themselves, stimulate the production of the right type or quality of produce, as evidently it is in the interests of the grower to exploit all such possibilities. For a number of reasons, however, such an automatic adjustment does not take place in practice. The cultivator who is not himself in touch with distant and overseas markets is, more often than not, likely to employ in the selection of crops grown criteria other than those related to the maximisation of his income. For example, a particular crop may be preferred because it is easy to grow or because it matures at a convenient moment or because it seems to give a particularly heavy yield or, again, simply owing to the force of local fashion or custom. It is extremely unlikely that selection made in this way would be identical with what would be the most economic for him to grow. Besides, we must not forget that we are living in a dynamic world. Market conditions change incessantly as a result of various forces, e.g. new technical development, discovery of some synthetic substitute, economic nationalism and what not. Thus there is need for constant adjustment of demand to the fluctuating market conditions. The very magnitude of the task rules out the possibility that an ordinary cultivator would be in a position to follow the shifting conditions in distant markets and introduce corresponding changes in his production. Lastly, commercial quality itself is an elusive factor and cannot be recognised so easily. Some grapes may be good for eating in places where they are grown, but at the same time may not stand transport to distant markets. Certain fruits may be good for eating, but useless for canning,

or vice versa. It calls for a good deal of careful observation and calculation before the commercial quality can be detected and the optimum quantity of a crop, or of a particular type or quality of that crop, which should be grown, can be ascertained. The producer has, in other words, to be educated and persuaded to grow the type and the quality required by market conditions.

#### (e) "Utilisation" and "Processing" Industries.

139. While the market for agricultural produce largely depends on industrial development in general, there is a type of what may be called utilisation industries, that is, industries which render possible through preservation, etc. a better utilisation of agricultural produce, which would directly widen the market for a number of commodities. For example, industries for canning such fruits as mangoes, pine apples, etc. for producing fruit juices, tomato sauce, chutneys and what not, will open up new possibilities for marketing many agricultural products. In the Punjab, the possibilities of producing fruit juices and canned products are being considered. The Central Marketing Staff have been negotiating with the interests concerned for the establishment of factories for the production of dried, liquid or frozen eggs. Steps should, in our view, be taken all over the country to explore the possibilities of developing such industries. It goes without saying that the establishment of every industry will have to be preceded by a local enquiry. For example, before a factory for the canning and bottling of fruits or vegetables or for the preparation of fruit juices is started, it would be necessary to find out if the required type of raw produce is available in sufficient quantities so as to keep the factory running for a reasonably long period each year.

140. Improvements in processing hides, rice, tobacco, etc. would help in two ways. Firstly, the processed articles would fetch a better net price, that is, after making allowances for the expenditure involved in processing; and, secondly, the market for many of the articles would be widened, e.g. Indian tobacco (chewing and cigarette) could replace imports.

#### (f) Adulteration.

141. Adulteration of good ghee has become a growing menace in this country. For example, it has become difficult to get pure ghee even in villages. Linseed or groundnut oil is at times converted into an oil possessing all the outward characteristics of mustard oil by the simple addition of synthe-

tic essence of mustard imported into India from abroad. Even the "imitation white flour" made from minerals for mixing with wheat flour, has been produced by some concern in Calcutta. While the wider consideration of national health requires that the adulteration of food should be checked, it raises at the same time questions intimately connected with rural marketing. Very often adulterated stuff is preferred by the consumer because it would be difficult to secure the full premium for the purity of the stuff. Meanwhile statutory measures, if carefully planned and strictly enforced in practice, can carry us a long way. The conference of ministers, to which reference has been made several times, called upon the Provinces and States to undertake a special examination of their existing Pure Food Laws and of their system of administration with a view to remedying the evils of adulteration. Incidentally, a Bill introduced into the Legislative Assembly of the U.P. to stop the adulteration of ghee contained the interesting provision that all vegetable products which, though not sold by manufacturers for adulteration, was utilised for the purpose of dishonest traders, should be coloured. The proposal deserves serious consideration. Steps, more or less of this nature, may be necessary for combating the adulteration of other food stuffs as well.

## PART V.

### REFORMS NECESSARY WITHIN THE EXISTING STRUCTURE

#### CHAPTER XI.

##### SOME ASPECTS OF RURAL FINANCE.

142. We have stated before that the Indian Cultivator is indebted because his income is low, while it becomes difficult to lend to him at a low rate of interest because he is indebted and, therefore, not sufficiently creditworthy. Low income, indebtedness, dear credit—this is the causal chain. At the same time dear credit is itself a cause of low income, and therefore helps in perpetuating indebtedness. Where the cultivator has to pay high rates of interest for crop loans, marketing finance, etc., his net return is correspondingly lowered; where he has to pay such rates of interest on the existing debts, he has smaller balance left for making both ends meet, while dearth of finance coupled with high interest rates is a definite obstacle in the way of better farming and higher income. We have argued before that any step taken to increase the income of the cultivator would tell in improving market facilities and cheapening rural credit. We now propose to enquire to what extent the problem can be directly attacked from the credit end. In other words, what relief can be provided by improving credit facilities.

143. The financial requirements of the cultivator for agricultural purposes can be conveniently split up into long-term and short-term. Where money is sunk in the land for effecting some permanent improvement, or alternatively, where it is utilized to pay off part of his long outstanding debts, clearly short-term credit can be of little help to him. On the other hand, loans are required by him for seeds and manures, at times even for maintaining himself during the months between sowing and harvesting and, later, for marketing his crops. Such loans are essentially of a seasonal character, and usually advances for a period of six to nine months would serve the purpose.

144. In addition, the cultivator requires what in the absence of a better word, is called "intermediate" credit, the duration of which is usually something like two, three or four years. The bulk of rural credit falls at present under this cate-

gory, and is supplied by money-lenders, co-operative societies, and partly also by the Government. A substantial part of the "intermediate" credit is, it may be presumed, utilised for consumption purposes, though it is certainly invested productively for the purchase of cattle and implements, for effecting petty land improvements, etc. In any rational scheme of rural finance, there is, without doubt, a recognised place for credit of intermediate duration, as investment for such productive purposes as those just mentioned plays a vital part in the economic well-being of the rural community. The consideration of "intermediate" credit, however, gives rise to institutional questions which can be better dealt with in the part on "Rural Finance—Need for Structural Changes" to be included in the Supplementary Report which we propose to submit later. In what follows we shall, therefore, be concerned with short and long term credit properly so called.

145. The distinction generally drawn between short-term and long-term finance is by no means academic, but has practical implications. For the problem of rural finance can never be solved successfully unless suitable institutions are devised for separately dealing with these two types of financial requirements of the Indian cultivator. This has become almost a platitude in all Western countries where the vital distinction has long been drawn between long-term and short-term agricultural loans. While the nature of institutions advancing such loans as well as the terms and methods of advancing them have varied from country to country in accordance with local conditions, the line of demarcation between the two has never been lost sight of; and such institutions have, in general, specialised in dealing with either the one or the other type of agricultural finance. It cannot be said that in India this principle has been firmly established, although in recent years and mainly as a result of the unhappy experience of the past, it has been more and more gaining ground. Not the least reason why a large number of co-operative credit societies in India has come to grief, lies in the failure to realise that such societies, from their very nature, could deal only with short-term loans for productive purposes. In actual practice the advances made by them were only too frequently utilised by the cultivator in paying off his interest and capital instalments to his creditor with the result that the number of defaulters mounted and the societies found themselves saddled with a disproportionate amount of unrealisable assets. The policy boiled down to one of borrowing short and lending long, which runs counter to the canons of sound finance, be it in agricultural or other spheres of economic activities.

146. As mentioned above, long-term loans are required by the cultivator mainly for two sets of purposes: either to enable him to carry his load of debt or to bring about some permanent improvement of his land by increasing the facilities for irrigation, etc. As regards indebtedness, the only possible solution of the problem lies (a) in scaling down debts to some reasonable dimensions which would more nearly correspond to the repaying capacity of the cultivator, and (b) in bringing into existence some appropriate institutions which would advance to him long-term loans at the lowest possible rate of interest with provisions for their repayment in suitable instalments spread over a period of, say, fifteen or twenty years. The need for such an institution can no doubt be obviated if the authorities responsible for scaling down the debts were also to settle the terms, in accordance with which he should pay off the reduced amount of debts directly to his creditor. This has frequently been the practice in the administration of legislation recently passed on debt conciliation, etc. We have mentioned before that, in general, we approve of the action taken by the provincial governments for tackling the problem of rural indebtedness. As regards the actual working of this legislation there are, no doubt, points of detail which are open to criticism. It is, however, not our intention nor is it necessary for our present purpose, to enter into a discussion of these points. At the same time it cannot be denied that the debt legislation has, as it was perhaps bound to, upset the financial status quo of rural economic life, and thus given rise to some serious problems. We propose to come back to this subject at a later stage.

147. In a country like India where the sizes of holdings and of land as distributed per capita are very small, there is an imperative need for intensive cultivation. For only then could the cultivator augment the yield from his holdings with reasonable prospects of maintaining himself and his family. The logical corollary to this is that very much larger amounts should be invested in land to effect all possible improvement, than has so far been the case. It is clear that a good deal of such capital investment must be directly undertaken by the Government as private individuals or small local bodies would not be in a position to embark upon projects involving expenditure of large sums. But apart from these there is a vast scope for small-scale capital investment which can be profitably undertaken by private individuals either separately organised or in co-operative societies. For example, a relatively well-off farmer would perhaps dig a well or re-excavate a tank in his fields for irrigation purposes if it were possible for him

to borrow the required amount on acceptable terms. Similarly, in many parts of India minor irrigation works could be undertaken by co-operative irrigation societies consisting of members who would be benefited by such works. Such land development work cannot, however, be undertaken on a substantial scale unless provision is made for adequate long-term accommodation on a reasonably low rate of interest to individuals, co-operative societies and analogous bodies.

148. The agencies which at present cater to the needs of the cultivator for long-term finance are private individuals (money-lenders, zamindars, etc.), co-operative mortgage banks and the Government. The interest charges on loans advanced by private individuals are much too high. Besides, the supply of such loans even at prohibitive rates of interest is, from their very nature, bound to be erratic. The loans advanced by the Government, mainly under the Land Improvement Loans Act, useful as they are under the present circumstances, can meet only a very small part of the total needs of the cultivating classes. The development of co-operative mortgage banks, except in Madras, has been very slow, their individual loans are relatively small in amount, and the total volume of their transactions has never been large. Nevertheless, they have fully justified their existence and their extension can go a long way in meeting the demands of the cultivator for long-term accommodation. It is, however, doubtful if co-operative land mortgage banks could be developed, at least for a very long time to come, on a scale which could be regarded as adequate for the purpose. The type of land mortgage banks which should be evolved in India so as to fill up the present gap in our credit structure, is one of the more important questions with which we propose to deal in the supplementary report.

149. The borrowing power of a cultivator will naturally depend on his credit-worthiness, that is to say, on the kind of security he can offer. The most important asset of the ryot is his land, and if he actually owns it, he could borrow against the mortgage of his land. It appears that in some provinces the present restrictions on the right to transfer land operate to reduce the credit of the borrower, increase the risks of lending on such security, and hence tend to push the interest charges upwards. There seems to be a fairly clear case for relaxing such restrictions where long-term loans are required for definitely productive purposes, while it would serve national interests, if provision were made against transfer from a cultivator to a non-cultivator or against the holding of such transferred land by a non-cultivator for a limited number of

years. Most of the peasants are, however, tenants at will and not owners. The removal of restrictions on the transfer of land will not help them. Peasants of this class could be made more credit-worthy only if their occupancy rights and the right to transfer them are recognised. Besides, it would be indispensable to ensure that those who effect improvements on land should also derive the benefit from them. If the right to such improvements were conferred on the tenant, it would serve as a powerful incentive to land improvement

150. Short-term loans are needed by the cultivator for his seasonal operations, for the marketing and movement of his crops, also for the purchase of cattle, farm implements, etc. The bulk of agricultural finance is provided chiefly by money-lenders. The disadvantages of this overwhelming dependence on money-lenders for agricultural finance has already been pointed out. The borrower has to pay a heavy rate of interest. In addition, his loans are frequently accompanied by a pledge to sell his crop only to the money-lender who also acts as a trader, if the crop is not actually sold in advance at the time the loan is taken. An indebted cultivator who cannot act as a free agent in selling his produce, receives an unfavourable return for his crop. While the evil is undoubtedly there and its magnitude is at times appalling, a suitable remedy cannot be found simply by denouncing the money-lender. For we must not overlook the fact that the cultivator turns to the money-lender for financial accommodation mainly because he has no alternative sources at his disposal. We have argued before that, instead of holding the middleman responsible for the chaotic and, from the cultivator's point of view, very unfavourable system of marketing agricultural produce, we should endeavour to replace the present organisation by a better one which would lead to an automatic elimination of the redundant middlemen, and a consequent increase in the return received by the cultivator for his crop. Similarly, our effort should be directed to evolve a better credit system under which the cultivator would no longer be constrained to borrow from the money-lender on such crippling terms. If regulated markets, co-operative sale, better communication, lower freights, etc., are indispensable for the development of a rational system of rural marketing, they have their counterpart also in rural finance which could be placed on a rational basis only if proper arrangements were made for regulated credit, co-operative credit, better flow of credit, lower interest rates, etc. There are, so to say, middlemen not only in marketing agricultural produce but also in supplying rural finance. There is as much need for cutting down middlemen's profit to a minimum in one

case, namely, to bring about a rise in the effective income of the cultivating classes.

151. Where the role of the money-lender and that of the middleman have been combined and the creditor of the cultivator is also the purchaser of his produce, the solution of the problem would call for simultaneous arrangements for advancing short-term loans to him, as well as for selling his produce. The question of crop loan becomes important in this connection. For just as, in most cases, the cultivator can secure long-term loans by mortgaging his land (or his occupancy rights), if he wants a short-term loan, he advances the crop he is going to produce. It is, therefore, essential to devise a method under which the hypothecation of the crop to be raised would be both cheap and easy. The possibility of removing the present stamp duty on crop hypothecation deserves consideration, particularly as it could be made compulsory that all such hypothecation should be registered with the Village Headman, for which a nominal fee should suffice.

152. Credit institutions will be chary of crop security unless it provides cent per cent security. It should not, however, be difficult to lay down rules which would render such security readily acceptable to the credit-giver. For example, it could be made a penal offence summarily punishable, for a cultivator to remove or dispose of hypothecated crops without the creditor's consent. It could also be provided that hypothecated crops, when harvested, should be stored in public warehouses outside the control of both producer and creditor, assuming that, in accordance with the recommendations offered later, such warehouses would be increasingly available to the public. In such a case the cultivator would receive a fair return for his crop; while the creditor would have no difficulty in realising his dues.

153. Even then lenders may show great reluctance to make advances on the basis of such crop pledges. For a drought or a flood might cause heavy damage to the crop, or, again, other creditors or the landlord might intervene and lay a claim on the produce. The first objection could be met by introducing some kind of crop insurance which would so spread the risks over a number of years that no serious loss would arise. The second objection could be met by creating a form of chattel mortgage in respect of the crop in favour of the creditor, say, on lines similar to those contained in the English or Irish Agricultural Credits Act. Such credit will then have priority over all other claims. It might, in our view, have priority even over the landlord's claim for rent. There is nothing radical in this suggestion, for, after all, had no

crops been grown at all owing to the lack of timely finance, the landlord would have greater difficulty in realising his rent. Besides, if the landlord himself were to supply loans on the security of crops to be grown, he would equally enjoy such priority for the realisation to make such loans which would improve his prospects also for collecting the rent. The Bombay Agricultural Debtors Relief Act imposes restrictions on the sale of produce and on creating any encumbrance on the immovable property until the debts are redeemed. Similar provision will have to be made also in others.

154. So far we have dealt with the question of agricultural finance as required for long-term purposes as well as those of seasonal operations of the farmer. The movement of crops equally calls for short-term credit facilities. In the next chapter we shall accordingly turn to a consideration of marketing finance.

## CHAPTER XII.

### RURAL WAREHOUSING.

155. We have mentioned in a previous chapter that large sales immediately after the harvest cause a slump in the market and the producer receives a low price for his crop. The reasons why he is constrained to dispose of his produce as soon as it is harvested are: (a) being in dire need for hard cash, he has no resources to hold out for a better price and (b) there are no facilities for storing his produce and borrow against it, which could enable him to meet his immediate demands for cash and at the same time realise a better price for his crop. Thus the question of warehousing and marketing finance at once becomes important.

156. Before we come to deal with this subject, it would seem necessary to remove one or two misapprehensions. Firstly, warehouse storing is not to be confused with revalorisation (i.e., an attempt to force up the market price by an artificial restriction of supply). Its object is much more modest. The cultivator very often knows that by waiting for a few weeks he could receive a better net return for his produce (i.e., after allowing for the expenses of holding it). He is, however, so sore pressed for money that in spite of this knowledge he is compelled to part with his produce immediately. Besides, when he is in such a state he can hardly be expected to drive a satisfactory bargain with the purchaser. Warehouse facilities are contemplated not in order to put a premium on speculative holding of crop which might result in an ultimate loss, but to enable the cultivator to hold his crop when he knows for certain that thereby he would raise his income by a clear margin.

157. We have not the slightest doubt that there are frequently cases where a cultivator knows fully that holding the crop would pay, but has not the means to do so. Such cases seem to be very common especially in marketing food-crops such as wheat and rice. The seasonal slump in price is usually followed within five to six months by a 50 per cent rise in price or more. According to the all-India wheat report, "between 50 and 60 per cent is sold in the months immediately following harvest. Later, during the monsoon, supplies fall off, and business is practically at a standstill in many up-country markets. This gives rise to a serious depression in prices at harvest time,

and raises problems connected with storage and also with transport and communications."<sup>1</sup> Those who still feel unconvinced and apprehend that the ignorant cultivator would be tempted to hold up the crop too long in the expectation of rise in price and thus might incur a net loss, would do well to remember that even in countries with a "free" economy, there is a recognised scope for warehouses; and storing facilities play a vital part even when there cannot be the slightest suggestion for revalorisation or speculative holding of crops by the cultivator himself.

158. When there are sure prospects of a rise in the price of a commodity, after the harvest-time depression is over, a middleman can, no doubt, buy the commodity at a low price, store it and dispose of it later at a substantially higher price, thus considerably widening his margin of profit. Nevertheless it is possible to exaggerate the actual extent of such profit. For we must not overlook that, were this margin to be unduly wide, more middlemen would step in, and the normal play of economic competition alone may be expected to bring it down to a reasonable proportion and thus set a limit to the so-called exploitation of the cultivating classes. We have seen before that the difference between the price paid by the ultimate consumer for a commodity and that received by the farmer cannot be regarded as the measure of middleman's profit, because there are other charges such as for transport, insurance and interest on the working capital locked up in the process of marketing, though any reduction in these latter charges would, other things remaining equal, increase the share of the cultivator. Similarly, it would not be correct to regard the margin between, say, the high price of rice during the monsoon months and the low price of the harvest time as necessarily going into the pocket of the middleman. For we have to take into account the costs of storing and any incidental waste. Owing to the absence of adequate storing facilities these costs are at present unduly high. Better storing facilities would, however, automatically reduce such costs; and to that extent improve the return received by the cultivator.

159. Risk-bearing is a difficult and delicate function and calls for a good deal of professional skill and expert knowledge. Normally the cultivator is not in a position to undertake it except within very moderate limits. Besides, experience has shown abroad that over a number of years the farmer marketing his crops in the season gets more or less the same price as he would get after waiting and watching. A. H. Garside, Economist of the New York Cotton Exchange,

1. See Report, p.2.

in his book "Cotton Goes to Market" shows how the theory that prices of cotton at harvest time are usually lower than those prevailing later in the season and that speculators receive the difference does not always work out in practice. By spreading the sale of cotton over the whole year the American Cotton Growers' Exchange working on a co-operative basis, was able to return a better price to the farmer in 1922-23 and 1923-24, and the same price as in ordinary marketing during 1924-25. But during 1925-26 and 1926-27 the grower actually received a lower price than what he would have received if all his crop had been marketed in the ordinary way during the harvesting period.

160. Even if the cultivator himself does not hold up his crop for subsequently realising a better price and leaves it to the middleman to bear the risks involved in the speculation on price movements, any improvement and extension of warehousing facilities would appreciably reduce the expenses for storing or, alternatively, render possible the storing of goods at moderate costs where at present there are no facilities for storing at all. Any benefit accruing from this source may be expected to be passed on to the primary producer as a result of the normal competition among speculating middlemen. This would, by itself, be an ample justification for establishing a chain of warehouses in the countryside. Besides, we must not forget that, as mentioned before, there are at present cases where even the ignorant Indian farmer can, without running undue risks, put off the sale of his produce by a few months and in the end realise a bigger net return. If storing facilities were brought within easy reach of the cultivator that would by itself provide a salutary check on any tendency on the part of the middleman to overcharge him, as he will always have the alternative of undertaking such storage himself.

161. What are warehousing facilities for cash crops, are cold storage depots for perishables. The traffic in fruits, vegetables and fish can never be sufficiently developed, unless railways provide refrigerator or cold storage vans, supplemented by cold storage depots at suitable centres. At present, cold storage depots exist only on a very small scale in places like Bombay and Calcutta. In all countries such depots play an indispensable part in the marketing of fruits, vegetables and fish; and private enterprises for running such depots has proved highly profitable. The cases for establishing such depots is all the stronger in a tropical country like India and we are convinced that the question deserves very much more attention than has been paid to it so far.

162. It is, however, not enough to suggest that warehouses should be constructed in the countryside in order to provide better facilities for storing agricultural produce. It is necessary to examine the technical, financial and administrative implications of the questions if practical effect is to be given to it. Without entering into details, let us indicate the broad outline of a scheme of warehousing which, in our view, would be both practicable and at the same time prove advantageous to the cultivating classes.

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163. In western countries warehouses or godowns are often built by private enterprise and run for profit. In the United States such warehouses are established within the market premises. They are all licensed and are independent of both buyer and seller. There is much to say in favour of starting warehouses on these lines also in India. With the channels of profitable investment so limited in this country, private enterprise ought to welcome such an opportunity of remunerative investment. On the other hand, there is no reason to fear that storing charges would be excessive if warehouses were run by private enterprise, for (a) competition alone could be depended upon to keep such charges within reasonable limits, and (b) it should not be difficult to lay down statutory rules fixing such charges. Similarly through legislation it is possible to lay down the conditions which must be fulfilled by every warehouse before a licence is issued to it so that full security may be offered for goods stored therein. If private capital is attracted to this field, a chain of warehouses can be developed within a relatively short time.

164. Nevertheless, we do recognise that such warehouses would be an innovation in this country and with little first-hand experience in this field, private enterprise may at first not be forthcoming on a sufficient scale. It, therefore, appears necessary that the Government should give whatever encouragement is possible for the construction of godowns or warehouses at least in the initial stages till the prospects of profit begin to attract private capital to an adequate extent. For example, the Government can, as part of their rural development policy, undertake to provide cheap long-term loans for the construction of godowns. The rate of interest charged on such advances should not exceed the average yield on Government securities by, say, more than one per cent, and the period of repayment might be fixed at something like fifteen to twenty years. Such loans could be advanced to co-operative societies, or other approved bodies which would be responsible for conducting the godowns. In the absence of such agencies, there is no reason why the Government should not themselves take

over the responsibility for keeping a godown and delegate the necessary powers, e.g. to the village headman and the village accountant. In certain cases it may also be necessary to supplement the grant of loans for godowns by small cash subsidies. This may, for example, be necessary in backward areas where the income from the rent charged on the storing of inferior varieties of food grains may not bring in an adequate return.

165. Railway companies, as recommended by the Indian Central Banking Enquiry Committee, could provide godown facilities in suitable places. No doubt, many railway stations have godowns already in existence, but these are meant mainly for the temporary storage of railway goods and do not provide facilities for storing agricultural produce destined to be placed sooner or later in the market. Nevertheless, railways could easily extend godown facilities and make suitable arrangements for storing rural products. Such an undertaking will, we believe, be profitable to railways and at the same time prove helpful to large numbers of cultivators and middlemen. Uniform rules and regulations could be laid down for the construction and administration of such godowns. In any case, we think some experimental godowns should at once be started at some selected centres. If such experiments prove successful, the Railway Board should extend the system.

166. In all regulated markets it should be one of the main tasks of the Market Committee to provide godown facilities. If the Committee lacks adequate funds at the outset, Government should advance on moderate terms the required amount to be repaid later in suitable instalments from the market fund.

167. To the Madras Government goes the credit for having been the first to take active steps for stimulating the construction of godowns in a number of marketing centres by agreeing to share the initial costs. The want of adequate storing facilities was, according to the administrative report of the Registrar of Co-operative Societies in Madras, one of the main reasons for the slow progress in the marketing activities of loan and sale societies in the province. To overcome this difficulty, the Government have been giving loans and free grants to these societies for the construction of godowns. During 1938-39 five sale societies were given loans amounting to Rs. 34,525 and free grants totalling Rs. 11,012. So far loans have been issued to 25 such societies, to the extent of Rs. 2,13,186. Select credit societies have also been given free grants for the construction of godowns. During the year 1938-39 three societies took advantage of this concession and ob-

tained Rs. 2,887 as free grants. So far, free grants amounting to Rs. 9,837 have been sanctioned to 15 credit societies, including a union. The lead taken by the Madras Government should, in our opinion, be followed in all other provinces.

168. As regards the actual construction of godowns, designs might be usefully prepared by the Public Works Department and made available free of cost to the interests concerned. Such godowns must be rat-proof and fire-proof and afford protection against damage from rain and moisture. It should, we think, be a general policy to insure the goods stored both in order to reduce the risks involved in storing and to facilitate borrowing on the security of the stored produce.

169. This brings us to the all-important question of the possibility of turning godown or warehouse receipts into a negotiable instrument. From what has been said in the opening lines of this chapter, it is clear that a mere extension of storing facilities will not improve matters unless steps are simultaneously taken to render possible borrowing on the security of the stored produce. However perfect may be the warehouse system, the cultivator with no resources at his disposal and faced with various claims for cash, for paying interest and capital to his creditor, rent and land revenue, will, in general, not be in a position to avail himself of such storing facilities unless he can pledge his produce to borrow funds. Besides, as we shall see in the next chapter, there are larger considerations for creating genuine trade bills in India if the credit machinery is to operate to the maximum advantage of the economy as a whole.

170. If godown or warehouse receipts are to become negotiable credit instruments, they must be issued in strict conformity with rules and regulations explicitly laid down on the strength of suitable legislation. It is not our intention, nor is it, in fact, necessary for our present purpose, to enter into a discussion of the question in all its details. It would suffice to indicate broadly the conditions which warehouse receipts should fulfil if they are to function as a safe credit instrument.

(i) Warehouses erected in accordance with official rules should be licensed. Receipts issued by warehouses other than the licensed ones should not be negotiable. Warehouse licensees may be private individuals, market committees, railway companies, co-operative societies and other suitable bodies.

(ii) The control and custody of warehouses should be independent both of creditors and debtors.

(iii) Produce stored in warehouses should be insured.

(iv) Provision should be made for inspection and classification of warehouses and duties of warehousemen should be clearly defined.

(v) Provision may be made for grading the produce by persons to whom licenses may be issued for the purpose.

(vi) All persons will be entitled to avail themselves of warehouse facilities. The issue of receipts for goods which are not actually received by the warehousemen will be a legal offence.

(vii) Warehouse receipts must contain the following details: the location of the warehouse where goods are stored; date of issue of the receipt and its consecutive number; a statement as to whether the goods are to be delivered to the bearer, to a specified person or his order; rate of storage charges; the description and quantity of goods; the class and grade of any agricultural produce, if certified by a person holding an official license; if the receipt is issued for goods of which the warehouseman is the owner either solely or jointly or in common with others, the fact of such ownership; a statement of the amount of advances made and of liabilities incurred for which the warehouseman claims a lien; the signature of the warehouseman or some person duly authorised by him and the number of his license.

(viii) Miscellaneous provisions will have to be made as regards the conditions for the transfer of such receipts for the delivery of goods, for issuing duplicate receipts when the original is lost, attachment of goods for which a negotiable receipt has been issued, disposing of goods, particularly perishables, unless claimed in time, etc.

## CHAPTER XIII.

### A PLEA FOR BETTER FINANCIAL IRRIGATION.

171. We have pointed out in previous chapters how, under the present system of rural marketing, there is often an embarrassingly large supply of some commodity in one place, while there is an appreciable margin of unsatisfied demand for the same commodity in other places. This lack of co-ordination is reflected in the unusually high level of inter-regional price differences. Such a state of affairs involves needless hardship and sacrifice both for the consumer and the producer; and we have pointed out how an equalisation of prices over a wider area would redound to the advantage of the country as a whole. The same remark applies, mutatis mutandis, also to credit which is, after all, an economic good. The synchronisation of plethora of funds in the bigger money markets and its scarcity in the rural areas is reflected in the very wide margin between the rates of interest prevailing in the two cases. This margin involves unnecessary sacrifice of interest on the part of the supplier of credit, namely the saver, and unnecessary hardship for the consumer of credit in rural areas, that is to say, the cultivator. A very much narrower margin would, without doubt, benefit both parties. Or, to take another analogy, the present distribution of credit facilities reminds one of the excessive concentration of rainwater in certain regions, while, simultaneously, there is a drought elsewhere. If man were to co-operate with nature on an adequate scale, in many cases a more rational distribution of the available water through a system of irrigation canals would be possible, and prove advantageous to regions suffering from scarcity of water as well as to the flood-stricken areas. What we need most in the field of credit today is, so to say, a system for better financial irrigation.

172. Money has perhaps always been cheaper in bigger centres than in villages. In our times there has, however, been an excessive concentration of funds in such money markets as Calcutta and Bombay. The reasons are not far to seek. For warehouses etc. it would not be possible to develop a first-class credit instrument which would be acceptable to banks. Thanks to all these reasons, rural areas have so far derived little benefit from the growth of modern banks in India. The financial requirements of the Indian cultivator had to be met by those who alone were in direct touch with him,

and could, as a result, better gauge his credit-worthiness. No wonder that, in these circumstances, the cultivator had to depend almost exclusively on money-lenders for financial accommodation.

173. In recent years, particularly since the last depression, this divergence in the supply of credit between rural and urban areas has become far more pronounced. Several factors have been responsible for this. In times of depression more liquid money is thrown into the market, which naturally pushes down the rate of interest. The liquidation of gold holdings, in so far as it was not due to distress, increased the supply of short-term funds which found its way into the money market. Incidentally, the pull of the Post Office Savings Bank has always been in the same direction, as it transfers funds from rural into urban areas. It cannot be denied that, during the last few years, legislative measures adopted by Provincial Governments to reduce the burden of debt and the rate of interest have caused an exodus of funds from rural areas into the bigger money markets, and have thus aggravated cases, e.g. in Bengal, it seems almost certain that the smaller banks, confronted with a growing competition among themselves, offered high rates of interest to the depositors in order to attract new funds. And with the interest rates of banks at a high level, there was still less inducement for the small capitalist in rural areas to risk his savings by making new advances to the cultivator. It cannot be doubted that as a result of the restrictions imposed by recent legislation on money-lending business in general, the investors in rural areas have become nervous. Such restrictions may even lead to quite unexpected results. For the honest man may very well be tempted to exploit the ignorance of the borrower in every way, withdraw from such business and leave the field to the ingenuous, if less scrupulous, people who would not hesitate to exploit the ignorance of the borrower in every way. It was thus the modern joint stock banks grew up in bigger centres. And, just as mass production means lower costs, large-scale financial catering lowered the cost of credit. As commercial banks specialise in short-term investment, it was but natural that they should, in the first instance, turn to the more important centres of business. In the meantime, competition among commercial banks in large towns has become keener. As a result many of them are searching for new opportunities for a remunerative investment of their liquid funds. In those circumstances, they would perhaps be inclined to bring within their normal range of activities also short-term advances to the cultivator. But the disorganised state of Indian agriculture, particularly the chaotic state of Rural

Marketing, has so far served as an effective deterrent. It is not possible for Joint Stock Banks to undertake an examination of the credit-worthiness of each individual cultivator before sanctioning a loan to him. Such an examination requires a direct and intimate contact with the villager, which is not possible for them. Besides, the time, trouble and expenses involved in the process would be such that the game would not be worth the candle. On the other hand, in view of the indebtedness of the cultivators, commercial banks would run undue risks if they were to advance money without the necessary preliminary examination. How great these risks are, has been abundantly shown by the record of Co-operative Credit Societies, which were, after all, very much more favourably situated as regards the grant of loans to the cultivator, than big commercial banks can ever expect to be. In spite of all these difficulties, if proper legislative measures were adopted, some kind of safe short-term negotiable credit instruments, such as crop bills and warehouse bills, could be developed; and commercial banks would, in all probability, have been prepared to accept them. But for reasons already mentioned no such bill has so far been evolved. Warehouse bills hold out better hopes. But unless the whole system of rural marketing is put on a more rational basis through standardisation of weights and measures, grading and standardization of produce, introduction of regulated markets, licensed lenders would employ dubious devices to circumvent the law. In fact, when one carefully weighs the pros and cons, it might well appear that the policy of licensing the lenders coupled with general supervision of their business would perhaps yield better results than legislative measures fixing the maximum rate of interest. The fear that one's name may be struck off from the list of approved money-lenders would act as a salutary and perhaps more effective check just on those practices which the law wants to do away with.

174. How could such a situation be remedied and more funds made available for investment in agriculture? With a low level of interest in the money markets which was unprecedented in the history of India, the Government had a rare chance of floating long-term loans, say, at 3 per cent, and of utilising the funds thus raised, for long-term investment in agriculture through some appropriate machinery. The co-operative organization if properly reconstituted could, in many cases, serve as a suitable intermediary. Land mortgage banks, co-operative or otherwise, could be established; and the administration of funds raised through Government loans could

be entrusted to them under carefully prescribed rules. Such banks, we believe, could advance loans to the cultivator at about 1 per cent, thus leaving a margin of about 1 per cent to cover risks and expenses involved in the process. It should not have been difficult to lay down specific conditions under which loans should be granted to the cultivator by these mortgage banks or other suitable institutions, to define the purposes for which such loans should be sanctioned, (that is to say, remunerative investment in land and the repayment of debts to money-lenders, after these were scaled down to reasonable dimensions in accordance with the provisions of the new debt legislation, etc.), and, lastly, to devise and adopt suitable measures with a view to ensuring that such loans would be utilised exclusively for the purposes for which they were sanctioned.

175. Such a policy would have meant a direct transfer of funds from centres where the supply is superabundant to the rural areas which suffer from a chronic dearth of capital which has of late been further aggravated. It would thus have rectified, at least partially, the present maldistribution of liquid funds. Such a transfer of money from a place where its marginal utility is very much higher would economically have been a sound proposition. In view of the vast scope and urgent need for capital investment in agriculture, there was, in our opinion, almost an unanswerable case for adopting a policy on the lines just indicated. Nor is there anything extraordinary in such a proposal. For, after all, the Provincial Co-operative Banks do place funds at the disposal of co-operative central banks, while, through these banks, such funds filter down to the primary societies. The policy has, in other words, been already recognised in principle. The rate of interest charged by some Provincial Banks on advances made to central banks was, however, too high in view of the easy money conditions at the financial centres. If funds were raised by the Government through long-term loans, a substantial lowering of the interest rates would have been possible, while the flow of money through co-operative or other suitable channels would have been very much stimulated. The authorities, however, preferred to adhere to the orthodox policy of inaction. Long-term loans can, we believe, be floated even now and the proceeds utilised for the benefit of agriculture, although perhaps a higher rate of interest will have to be offered. For, since the outbreak of the war, conditions in the money market have changed, and the investing public seems to have come to believe that the flotation of large-scale war loans is impending. With such enhanced prospects

of new avenues for secure and profitable investment, they are not likely to betray the same readiness now to subscribe to a loan floated by a Provincial Government, unless a more attractive rate of interest is offered.

176. So far, we have dwelt on the possibility of a direct transfer of funds to the rural areas. But this maldistribution of credit facilities must, after all, be attributed to institutional shortcomings. Can we not introduce such changes in the existing system and/or suitable additions to it as would ensure a more even distribution of funds between the town and the country? Surely the question deserves careful examination, for even in a planned economy, where such exaggerated reluctance on the part of the Government to take initiative would be completely out of place, an automatic regulation should be preferred as long as it can secure the desired results as effectively as governmental intervention.

177. The simplest and the most effective method of bringing the advantages of cheap money conditions to the door of the cultivator would, as already indicated, be to induce the joint stock banks to participate actively in agricultural credit. For some years past, the more important ones of the Indian joint stock banks have been establishing new branches. We welcome this tendency, for, extensive branch banking can make a substantial contribution to the equalisation of credit facilities all over the country. While such banking has spread to many small country towns, villages have so far not been linked up with the system. In order to achieve this, two reforms appear to us indispensable; branch banking will have to be developed on certain new lines, while first-class agricultural bills will have to be created. Let us briefly consider these points.

178. There is, we believe, point in the contention that Indian banks have till now followed too closely in the footsteps of foreign banks; and by paying high salaries and occupying expensive buildings they frequently raise the cost of branch banking to such an extent that it is difficult to pay their way except in larger centres. One of the pressing needs in the field of banking in India is how to combine the efficiency of western banking with the cheapness associated with the village Sowcar. It is frequently overlooked that even in a country like England, branch banking in the countryside is remarkable for its cheapness. The credit requirements of the tenant farmer are met by the commercial banks with a system of branches flung far over the countryside. For example, the Midland Bank has scores of branches in agricultural districts, where the staff consists of a Manager and a 'junior' who does

the work of a messenger (the counterpart of the Indian peon) in addition to his clerical duties. Sooner or later branch banking will have to be developed in India along these lines if the credit system is to work efficiently.

179. Nevertheless, for the time being the more important question is to create negotiable credit instruments which would be acceptable to commercial banks. For only then will there be a sufficient volume of business to be transacted by small branches of the type outlined in the preceding paragraph. As regards such credit instruments, railway receipts, crop bills, warehouse bills, etc. would, to our mind, offer the best prospects.

180. Unlike bills of lading, railway receipts do not at present rank as negotiable instruments. One main reason for this distinction is that the railway receipt does not contain as full a description of the goods covered by it as a bill of lading. This defect, we think, should be removed by calling upon the railway authorities to give as full a description as possible of the goods covered by the receipts. If this were done, there would be little difficulty in treating the receipts as negotiable receipts of the same rank as the bill of lading, so that they could serve as security for credit as effectively as the latter.

181. As regards crop bills and warehouse receipts, we have already pointed out how these could be made negotiable instruments and have also indicated the kind of legislation which would be required for the purpose. Nevertheless, the attitude of commercial banks will be largely influenced by their ability or inability to discount these bills or receipts at the Reserve Bank. If such rediscounting facilities were available they would more readily invest their funds in them as they would be in a position to replenish their cash reserves, whenever necessary, by rediscounting them at the Reserve Bank.

182. With the establishment of a Central Bank in India it was expected that active steps would be taken to promote the extensive use of trade bills as self-liquidating credit instruments. But so far no change has taken place. According to the Reserve Bank of India Act, the Reserve Bank of India is required to create a special Agricultural Credit Department, one of whose main functions shall be to co-ordinate the operation of the Bank in connection with agricultural credit (Sec. 54). Section 17 of the Act confers powers on the Bank to engage in certain transactions with a view to rendering active assistance to agricultural credit. So far the agricultural Credit Department has sought to define the conditions under which it would be prepared to make use of the powers contained in Section 17 and with this object in view, it has issued certain

circulars. The attitude of the Reserve Bank has given rise to some controversy in the country and the public is inclined to regard it as unduly conservative. In view of the importance of the issue it appears to us necessary to examine it a little closely and indicate what, in our view, would be the more rational policy for the Reserve Bank to adopt.

183. Section 17 (4) (d) authorises the Bank to carry on and transact the following business.

"Promissory notes of any scheduled bank, Burma scheduled bank, provincial co-operative bank or Burma co-operative bank, supported by documents of title to goods, which have been transferred, assigned or pledged to any such bank as security for a cash credit or overdraft granted for bona fide commercial or trade transactions, or for the purpose of financing seasonal agricultural operations or marketing of crops."

The difficulty arises with regard to the words "supported by documents of title of goods which have been transferred, assigned or pledged". According to the interpretation placed on this provision by the legal advisers of the Reserve Bank of India, warehouse receipts or warrants issued by an authority which is distinct from the lender or the borrower can alone be recognised as documents of title to goods. In other words, if institutions dispensing agricultural credit desire to hold security which can be negotiated with the Reserve Bank, they must have in their possession warehouse receipts or warrants issued against pledged goods in actual possession by a public body like a market committee or a railway authority or a business corporation controlling such warehouses. In rural areas the business corporation may well be a co-operative one, e.g. a district or provincial society constituted for the purpose which will itself not provide accommodation against the goods. Financing may be undertaken either by the local sale societies or the central financing agencies. In case, however, these latter types of institutions have their own godowns the receipts or warrants issued by them will not serve as security for credit to be granted under Section 17 (4) (d).

184. Thus there seem to be certain difficulties inherent in the Reserve Bank of India Act itself, which stand in the way of creating a short-term agricultural bill on the basis of the marketing operations in rural areas. With the present position of warehousing organisation there is hardly any possibility of developing such trade bills, unless the relevant section of the Act is suitably amended or differently interpreted. The difficulties, mentioned just now, will, of course, be obviated, if a system of warehouses is erected on the lines recommended in

the previous chapter. While there is an unquestionable need for developing licensed warehouses which would be interested only in the sorting of produce as a preliminary to marketing, and would not themselves undertake any financial operations, it will necessarily take some time before they can be developed on a satisfactory scale. If the country were to wait till then, the growth of rural trade bills would be needlessly slow. In our opinion there is, even within the framework of the present marketing and credit organisation, sufficient room for developing such trade bills which the Reserve Bank would discount without running undue risks. It would be regrettable if an exaggeratedly rigid interpretation of the Reserve Bank of India Act were to stand in the way of exploiting whatever opportunities there may be for stimulating progress in this direction.

185. There is yet another way of circumventing the legal difficulty just pointed out, namely, through the application of section 17 (2) (b), which also covers papers drawn or issued for the purpose of financing the marketing of crops. This clause authorises the Reserve Bank to carry on and transact the following business:

"the purchase, sale and rediscount of bills of exchange and promissory notes drawn either in India or in Burma and payable either in India or in Burma and bearing two or more good signatures, one of which shall be that of a scheduled bank, a provincial co-operative bank or a Burma co-operative bank, and drawn or issued for the purpose of financing seasonal agricultural operations or the marketing of crops, and maturing within nine months from the date of such purchase or rediscount exclusive of days of grace".

From the point of view of developing short-term negotiable credit instruments in rural areas, this clause of the Reserve Bank of India Act undoubtedly contains immense possibilities. The power conferred by this clause constitutes the most effective credit movement and aid to the agricultural classes in general. If the bills of exchange or promissory notes resulting from the operations of primary co-operative societies, were to be made negotiable with the Reserve Bank of India, at the Reserve Bank rate, all the financial facilities would be directly available to the cultivator. A canal would thus be cut joining the main-spring of credit supply with the agriculture of the country.

186. Unfortunately, however, the Reserve Bank has so far been unduly halting in making use of the powers conferred by this clause of the Reserve Bank of India Act. The clause lays down that the Reserve Bank could engage in the purchase, sale and rediscounting of those bills of exchange

and promissory notes which bear two or more good signatures. The word "good" seems to be interpreted so strictly that, in the present conditions of the co-operative movement in India, it becomes very difficult in practice to supply such signatures. In a second circular, issued on June 12, 1939, by the Agricultural Credit Department of the Reserve Bank of India, and circulated to all provincial and central co-operative movement on banking lines, this was specially stressed, the implication being that, unless the movement as a whole fell in line with the recommendation laid down therein, it would hardly be possible for the Reserve Bank to offer financial accommodation.

187. The conditions which, according to this circular, co-operative banks will have to fulfil in order to reassure the Reserve Bank of their soundness, may be briefly summarised as follows:—

- (i) Cash, cheques in the course of collection and balances with other banks should constitute about 10 per cent of the deposits. At least 5 per cent of the demand and  $1\frac{1}{2}$  per cent of the time liabilities, which is the proportion laid down by the Indian Companies Act for banking companies, should be maintained in actual cash. Great caution is necessary as regards balance held with other banks as liquidity in this case would depend on the liquidity of the latter.
- (ii) The banks will have to maintain balances with the Reserve Bank equal to  $2\frac{1}{2}\%$  of their demand liabilities and 1% of their time liabilities.
- (iii) Central banks should be required to hold at least 25% of their fixed deposits, 30% of their savings accounts in the form of government securities; and for this purpose to transfer an equivalent amount to the provincial bank which will buy government securities for them. In this way the provincial bank will act as an investment agency for the affiliated central banks.
- (iv) The co-operative banks should attempt as a general principle to avoid long-term business; and where loans for periods longer than nine months are found necessary, care should be taken to ensure that the total amount of such loans does not exceed the paid up capital and reserves.
- (v) Overdue loans should be shown separately in the balance-sheet for which a skeleton form has been recommended by the Reserve Bank to provincial co-

operative banks. "Fictitious repayments", so widely practised now, should be checked. Banks should take steps to ascertain the exact extent of their bad and doubtful debts.

- (vi) The deposit liabilities of co-operative banks as suggested by the Maclagan Committee, should not ordinarily exceed 8 to 10 times the paid up share capital and reserve.
- (vii) Reserve funds should be built up as quickly as possible. All co-operative societies should carry at least one-third of their net profits annually to the reserve fund until it equals the paid up capital, and thereafter at least one-fourth of the net profits.
- (viii) The loan and deposit rates of the central banks should be linked with the loan and deposit rates of the provincial bank, which in turn should be linked with the Reserve Bank rate so that there may be an organised structure of rates throughout the co-operative movement. A co-operative bank should not as a rule accept deposits for periods longer than a year or two at the most, as otherwise the elasticity of its interest rates will be undermined. Rates of interest paid on deposits should not be higher than the Bank rate.
- (ix) Central co-operative banks should employ an efficient and well paid staff trained in the theory and practice of banking. They should submit periodical statements, say once a fortnight, to the provincial co-operative bank in a prescribed form.

188. To ensure the safety and liquidity of co-operative banks the Reserve Bank has recommended that between 30 and 50 per cent of their deposits should be invested in government securities and treasury bills through the agency of the provincial co-operative bank. This, it has been argued, is all the more necessary because certain types of liquid investments like call money and the bills, which are popular with British banks form a comparatively small portion of the assets of even the larger commercial banks in India so that the possibility of the co-operative banks acquiring such assets in considerable quantity is remote. This argument calls for some qualification. Investments in trade bills, etc. which, from the liquidity point of view, constitute the second line of defence for British banks, plays a less important part in this country not because such investments are very much more limited. We have, in this chapter, been investigating how the Reserve Bank

by taking an active initiative, creates those very credit instruments which would enlarge the scope for investing the funds of banks in self-liquidating assets and at the same time benefit the agriculture of the country. The Reserve Bank, to our mind, is the least entitled to proceed on the assumption that this lack of trade bills, etc. would persist, because it lies very largely within its power to remove this deficiency from our credit system. To insist that a high percentage of the funds of co-operative banks should be invested in government securities, may be an effective method of ensuring the liquidity of such banks; but such a policy would mean a transfer of large amounts of funds from rural areas to bigger financial centres and would thus accentuate the prevailing mal-distribution of liquid capital with the consequence that the rates of interest in rural areas would be maintained on a higher level than would, strictly speaking, be necessary. It should be a cardinal principle in rural finance that the deposits attracted by a co-operative bank or a similar credit institution should be utilised, as much as possible, for the benefit of the area from which such deposits have been drawn. Our objective should be to operate with the lowest possible rates of interest compatible with security. The public naturally expects from the central bank of the country that instead of taking the short-comings of the present system for granted, it should take active steps for the creation of those conditions in which this objective could be realised.

189. All this throws significant light on the attitude which the Reserve Bank has adopted with regard to the whole question of placing the agricultural credit system of the country on a more rational basis. It has laid down the conditions which co-operative banks will have to fulfil before they can be eligible for obtaining financial accommodation. In short, it has been asking for a complete rehabilitation of the co-operative movement as a condition for any such accommodation. It is inclined to overlook the vital consideration that it can itself lend a helping hand in bringing about the rehabilitation which it demands. We all know that, as a result of the mistakes committed in the past, the co-operative movement finds itself in a difficult position today. How to bring it out of its present predicament is one of the most pressing problems with which we are confronted. The Reserve Bank, as the ultimate custodian of the country's credit policy, has not only the right to lay down the lines along which the movement would be reorganised, it has also the responsibility to do all that is within its power to bring about the necessary reorganisation. To wait till the movement has reorganised itself through its own efforts, would be to wait too long.

190. In the Annual Report of the Central Board of the Reserve Bank for the year 1939, it has been observed that "no co-operative or scheduled bank has so far approached the Reserve Bank for financial accommodation against agricultural paper". This statement should not, of course, be taken to mean that the co-operative banks or scheduled banks do not actually require such financial accommodation. The financing of agriculture in India is at present so undeveloped and unsatisfactory that such a suggestion would be completely out of place. We believe that the unhelpful attitude adopted by the Reserve Bank of India in the matter has been primarily responsible for the fact that no institution dealing with agricultural credit has so far found it worth its while to approach it for financial accommodation against agricultural paper.

191. We believe that on the whole the Reserve Bank has been pursuing an overcautious policy. It is our considered opinion that, even under existing conditions, a beginning can and should be made without further delay for using the powers conferred on the Reserve Bank by Section 17 (2) (b). According to this clause, the promissory notes of primary credit societies or of central banks bearing on them the additional signature of a co-operative provincial bank should be eligible for rediscount at the Reserve Bank of India. We strongly recommend that, as an experiment, a number of co-operative central banks and/or societies from among the best existing at present, should be selected and that the Reserve Bank should declare its willingness to rediscount their promissory notes on condition that these notes also bore the signature of the provincial co-operative bank. The arguments in favour of making such a start are overwhelming. Firstly, the alternative to the policy suggested here is one of continued inaction. Such a line of least resistance is, however, out of place when great tasks for the rehabilitation of rural credit are lying ahead. Secondly, the introduction of first-class agricultural paper negotiable at present at the Reserve Bank will provide a new fillip to the co-operative movement and to the extent its reorganisation on sound lines will be facilitated. Thirdly, if the advantages to be derived from such paper are made clear on a small scale other co-operative banks whose position is at present less sound, will be induced to set their own houses in order with a view to availing themselves of similar facilities. And, lastly, once the Reserve Bank has given a tangible proof of its genuine earnestness to make itself serviceable to the rural community in the way mentioned above, co-operative banks and societies and other institutions would show much greater readiness to act up to the recommendations which the Reserve Bank may offer from time to time.

192. In this part of the report we have dealt with the reform which may be carried out within the present framework of the credit system of the country. These reforms, if given effect to, will, in our view, meet some of the most urgent needs of the country in the sphere of rural credit. Nevertheless, we are of the opinion that even after the institutional shortcomings have been rectified along the lines suggested in the present and the last chapters, there will still remain a real need for devising certain new types of institutions to meet the requirements of rural credit. In other words, apart from reforms within the existing credit structure, we believe there is also need for introducing certain structural changes. We propose to deal with this aspect of rural finance in another part of the Report where we shall offer our recommendations as to the institutions which, in our view, should be created, if the interests of all classes of the rural community are to be properly safeguarded.

**PART VI**  
**SOME CONCLUDING REMARKS.**  
**CHAPTER XIV.**  
**WORK FOR THE FUTURE.**

193. Social and economic planning must, from its very nature, be a continuous process, if the objectives aimed at by planning are to be fully realised. If the new scientifically planned social system were to be a perfect one, external conditions will almost necessarily change and call for a corresponding change also in the plan so that planning will, at least partially, have to be done anew. In other words, planning in a dynamic world must itself be dynamic. It is, however, hardly possible that the plan initially set up for a country like India would be perfect, if only because of the fragmentary character of the information at present available in many spheres of social and economic life. These remarks apply with much greater force to a subject like rural marketing in India. The field is vast, new factors are bound to emerge, e.g. a change in the demand for a crop, new sources of production, discovery of some substitutes, technical changes in the methods of production, which will necessitate some readjustment in the plan. In addition we have to remember that our knowledge of the existing conditions are far from being satisfactory.

194. For reasons stated in the opening pages of the Report, we have not found it possible to examine separately the position of each rural commodity or group of commodities. Without such an examination, no plan for rural marketing can be regarded as complete. Besides, the Report even as it stands at present, bears in several parts marks of haste, which was inevitable in view of the time limit set to our deliberations. The work done by us can at best represent only a stage in the process of planning for rural marketing in India, and will have to be supplemented very considerably before a complete plan may emerge.

195. We are not aware how the National Planning Committee is going to function after the various sub-committees have submitted their reports. From the Red Book of the Planning Committee it appears that the Committee, as soon as it has made its recommendations, will be absorbed in a

wider body, called the All-India National Planning Commission which should be fully representative of the whole of India including the British Indian Provinces and the Indian States. The Commission will decide later how it should carry on its work. Whether it will have any permanent research staff attached to it or not, is not clear from the Red Book, which simply says that "The Commission may appoint a Sub-Committee or Sub-Committees to report to it on technical or financial aspects of any industry under consideration and may, for expert investigation, employ suitable technicians." It is well known that in its early stages the National Planning Committee was thinking in terms of large-scale industries which could and should be started immediately and that subsequently its scope was very much extended so as to include practically the whole range of social and economic problems. It is not unlikely that this broader conception of the functions of planning will persist also when the mantle of the present Committee falls on the Commission, and that the latter may very well decide to create the necessary staff and organisation to carry on all the supplementary work necessary to complete the work done by the Sub-committees. That there is need for making some such permanent arrangement, if national planning is to be run on scientific lines, cannot be questioned at all. On the assumption that the present report marks not the end, but only the beginning in planning for rural marketing and that the Planning Commission, when it comes into existence, will pursue the subject further, we propose, in the following paragraphs, to indicate broadly on what lines the future investigation on rural marketing could be most fruitfully conducted.

196. We have already referred to the fact that the information available on agricultural marketing in India cannot be regarded as satisfactory. Until recently no systematic attempt was made to collect the relevant data. Four years ago the Central Marketing Staff started a series of marketing surveys. So far all-India reports have been published on wheat, linseed, eggs, tobacco and grapes. The Marketing Staff has also published a special report on cold storage and transport in Delhi. In addition, surveys undertaken by Provincial and State staffs on milk, cattle, coffee, rice, groundnuts, bananas, hides and skins, co-operative marketing and potatoes, are in the final stages and reports are now being compiled by the Central Marketing Staff. Lastly, commodities which are still under survey by Marketing Staffs of Provinces and States and of special Cess Committees include wool and hair, sheep and goats, fish, lac and mangoes, apples and other fruits, oranges, and other citrus fruits, pineapples, markets and fairs, maize,

barley, gram, mustard, rapeseed and coria, cocoanuts, ghee and butter, sugar, cashewnuts. Survey work has not yet been started in respect of important commodities such as sesamum, castor-seed, millets, chillies, vegetables, dried fruits, poultry, animal fats, honey, etc.

197. We do not doubt the utility of marketing surveys as undertaken by the Central Marketing Staff. The Reports published provide for the first time comprehensive information on important agricultural products, which is useful not only to traders and businessmen, but also to the general public. Nevertheless, we must make it clear that in our opinion, such surveys are but a preliminary to the solution of the actual problems, and much will depend on what steps are subsequently taken on the basis of these surveys for which very large sums of public money are being spent. In several directions the Central Marketing Staff has already taken constructive steps, but most of the work done so far has been of an experimental nature. It is perhaps too early as yet to pass any judgment on the work of the staff. Nevertheless, there seems to be room for speeding up the whole work. On the whole, it is yet to be seen if the extensive and expensive marketing organisation which has been created in recent years succeeds in evolving a system of marketing the agricultural produce of the country which might be regarded as a sufficient quid pro quo for the amount which is now being spent on it annually.

198. The all-India marketing surveys which have already appeared or will appear in future, cannot, in our opinion, supplant the need for intensive studies on a regional basis. Such all-India surveys tend, from their very nature, to be more comprehensive than thorough. They throw useful light on a number of general questions connected with particular commodities. They do not, in fact they cannot, contain enough material for tackling the specific problems which arise in a particular place for a particular commodity or a group of commodities. It would be necessary to examine thoroughly the conditions prevailing with regard to the marketing of that commodity or group of commodities. After the general problems connected with the marketing of a particular crop have been tackled for the whole country, on the basis of the marketing surveys, there would, in our view, still remain plenty of scope to carry on regional investigations on scientific lines, on which real progress very largely depends.

199. An example will illustrate this point better. Some years ago, a co-operative paddy sale society was started at Bolpur, a centre of paddy and rice trade to which we have

already referred. The society ceased to function soon after it was founded. The failure has been attributed to various causes but some people continued to feel optimistic about the prospects of reviving the society and running it profitably on business lines. Such optimism appeared, however, to be more of an emotional character than based on solid facts. Recently the whole subject was studied from a rigidly scientific angle by the Institute of Rural Reconstruction, Sriniketan, Viswa-bharati. A house-to-house survey in a number of villages located near the market was carried out in order to collect first-hand data on the average production of paddy per year in the region and also to ascertain the volume of surplus paddy, i.e., the excess over what is required to meet the consumption demand of the cultivator and his family. Statistics on the fluctuations of the prices of paddy and rice have been collected from the big arats. Similarly, thorough information has been gathered regarding excess weights, etc. ("dhalta") charged from the cultivator. Besides, information locally supplied by reliable people makes possible a shrewd guess about the extent of fraudulent weighment. Detailed figures for the quantity of rice exported from Bolpur have been obtained from the receipt books of the railway station. On the basis of these figures one can at once see how much rice is exported to different places. The next step will be to study the prices of rice prevailing at the various places to which Bolpur rice is exported. One could thus form an accurate idea about the differences between the price of rice at Bolpur and those other places, and thus ascertain the margin on which the Bolpur rice dealers depend for their profit. From the materials already collected it is clear that any project for a co-operative paddy sale society will, under the present circumstances, help matters very little. Thanks to the keen competition among the rice mills of which there are some twenty in the locality, the cultivator receives what can safely be regarded as an optimum price for his crop, under the conditions prevailing at present. Again, owing to the keen competition among the middlemen, their profit has been cut almost to the bone. No co-operative credit society will be able to work with such a small profit margin; and, with its higher establishment charges, perhaps also the difficulty of finding a really able manager for such a society, it would in all probability incur loss from the beginning. Nevertheless, there is a very strong case for starting a regulated rice market at Bolpur. This will immediately regularise all market charges and stop malpractices including fraudulent weighment, and thus substantially improve the prospects of securing a better net return for the cultivator's crop.

200. The example given above shows what can be done by regional studies. At the same time it also indicates the method which can be followed in such studies. The Punjab Board of Rural Economic Enquiry has done some excellent regional studies. Similarly the publications of the Gokhale School of Politics and Economics, Poona, include some very useful pieces of research work. The more such regional surveys are undertaken by experts, the greater will be the benefit to the country and the nearer shall we be to the solution of our problems. One essential function of planning in future should be to encourage, if not actually to initiate, such specific regional studies in as many places as possible.

201. The importance of regulated markets in rural marketing has already been emphasised. It is probable, certainly it is desirable, that the system of regulated markets will in near future be very much extended. It would, therefore, be very useful to undertake an exhaustive study of the actual working of all the regulated markets which have so far been in operation in India in order to consolidate the results of the past experience. Such a study will prove very useful whenever in future it is proposed to start a new regulated market in some place. Similarly, although the number of co-operative sale societies in India has so far been very small, it would be highly desirable to collect all possible information on the actual working of the existing societies so that the difficulties which they encounter may be better assessed and suitable means devised to overcome them.

202. Experience gained in other countries in the marketing of agricultural produce is likely to be of great help to us. We are far from suggesting that foreign institutions should be copied in toto by us. Conditions in India are in many respects radically different. She will ultimately have to evolve institutions which would meet her special requirements. Without, however, in the least overlooking the importance of relativity in economic institutions, we ought to undertake a close study of those institutions which have grown up abroad, as not infrequently we are likely to find that such a study provides us with a valuable clue to the solution of our own problems. No systematic effort has so far been made to study the institutions which have been developed abroad for the marketing of agricultural produce. It should, we think, be one of the tasks of national planning in the field of rural marketing to make this omission good.

203. Statistics on the production of particular commodities, on the volume of transactions in them, etc. are indispensable for successfully tackling marketing questions. The statistical

department of the Government of India no doubt publishes estimates on production, etc., of agricultural goods as well. An examination of the methods employed for the collection of these data makes one feel very pessimistic about the accuracy of the figure, with perhaps one or two exceptions. A proper marketing organisation presupposes a much more detailed and reliable statistical information than has so far been available. The collection of statistics is, however, a complicated task. It calls for an extensive network of collaborators and as such must necessarily be undertaken by official organisations. Nevertheless, the planning authority can render useful service in two ways. Firstly, it can encourage regional surveys which should include collection of first-hand figures directly from the source. And secondly, it can, if it chooses to do so, offer constructive suggestions with a view to improving the present method of collecting data.

204. All publications connected with rural marketing in India and, as far as practicable, with such marketing in foreign countries, should be collected in the central office of the planning authority. Such a collection will be indispensable for a further study of the subject and for keeping abreast of the latest developments in the field. In order to ensure the continuity of research work on rural marketing we think that a small special body might be created, which would periodically examine all such materials and offer its recommendations from time to time. It could also co-ordinate all regional surveys or special investigations, e.g., on co-operative marketing, regulated markets, etc. Another function which it could usefully undertake would be to examine impartially the work which is being done by the official marketing staffs, compare it with the activities of similar bodies in foreign countries, and from time to time offer its criticisms and constructive suggestions.

205. In these concluding paragraphs we have tried to indicate the manner in which studies on rural marketing can be best conducted in future. Both the public and official bodies have of late been betraying an increasing interest in problems connected with rural marketing and there has been a growing appreciation of the urgency of such problems. Whatever may be the steps which the National Planning Committee decides to take in this sphere, we have no doubt whatsoever that rural marketing will have to be studied very much more carefully in future than has hitherto been the case in this country.

## **Summary of Conclusions and Recommendations.**

1. The N.P.C. aims at a balanced economic structure in which about half the population would depend on agriculture. Even if this objective is realised, India will remain a preponderantly agricultural country. In any scheme of economic re-organisation of India rural marketing is bound to occupy the key position. (Chapter I).

2. Rural marketing must be considered as a part of a wider problem. If the Indian farmer is poor primarily because the system of rural marketing is defective, the system of rural marketing is defective because, above all, the farmer is poor. There is thus need for a well-planned all-round attack on the various problems of rural life. Though for the sake of convenience different sectors of rural economic life have to be considered separately, in reality they are interdependent, and the degrees to which an attack in one front will be useful depends very frequently on what is done simultaneously in other fronts (Chapter II).

3. The difficulties from which the village producer suffers in marketing his produce are due to the dislocation caused by the impact of modern industrialism on the rural economy; more specifically, the farmer in general sells his produce at an unfavourable place and at an unfavourable time; and usually he gets very unfavourable terms. (Chapter III).

4. Our aim should be not to eliminate the middleman root and branch, but to harness him to the system in a more useful manner; not to despise and denounce his services, but to make them more efficient and rid them of all abuses. Although co-operative societies may undoubtedly take over some of the functions of the middlemen, in general we doubt very much if they could be so developed as to carry on the marketing of all rural goods in India without the support of the middlemen at any stage. (Paras 35 to 43.).

5. In planning for the realisation of a particular objective, it is wise not to leave out of account the operation of natural forces. In a modern economic system where interest groups have been strongly organized, the greatest justification for planning lies, paradoxical as it may sound, in not ignoring economic forces but ensuring that very free play of economic forces on which the liberal economists depended for the realisation of their social objective. (Paras 44 to 47).

6. As long as there are safer and surer methods of helping the cultivator it would, to say the least, be premature to think in terms of revalorisation and price control, which are fraught with heavy risks and which are often more alluring than really beneficial. (Para 48)

7. The optimum price for the cultivator's produce may be defined as that price which he realises when the machinery of distribution works with the maximum of efficiency. (Para 49)

8. The importance of better communications in rural marketing has been pointed out. (Paras 50 and 51)

9. Not only is the total railway mileage inadequate, but in addition, its distribution is far from being ideal from the national point of view. (Paras 52 and 53)

10. Railway freights constitute the biggest single addition to the prime cost of produce transported by rail from the point at which it is produced. Indian railways never seemed to realise that it was their task to promote and facilitate trade and traffic. The railways should enquire not what the traffic can bear, but what they themselves can offer. The present freight policy is also supposed to favour exports and imports to the detriment of the home trade. Short hauls are often relatively much dearer than long distance rates. (Paras 54 to 59).

11. We recommend a special investigation of the freight question including a comparative study of the freight structure of the more important countries abroad. (Para 60)

12. The Central Marketing staff has secured certain reductions in station to station rates. Further opportunities for reducing the net incidence of transport costs have been pointed out by the Agricultural Marketing Adviser. (Paras 61-a and 62).

13. In an ideal system, railways and roads are not competitive but complementary. Feeder railway lines with feeder roads are what we need most. But just as we require roads to feed railways, so also there must be smaller roads to feed the arterial ones. (Paras 63 to 65)

14. Not infrequently the condition of the first few miles of road is the decisive factor for a villager, for the trouble and expense involved in bringing the produce to the point where better roads begin are in many cases disproportionately heavy, but so far village roads have been neglected most. (Para 66)

15. The growth of motor transport in the countryside raises many problems. The question of prescribing minimum thickness of cart wheels deserves examination. (Para 67)

16. Water transport is considerably cheaper than transport by rail or road. But so far India has not realised even a fraction of the vast possibilities in water transport with the result that she has remained excessively dependent on her railways for the transport of primary produce. (Para 68)

17. The scope for developing water traffic should be carefully explored; nor should transport by ordinary boats be neglected. Just as in spite of the advent of motor lorries the bullock cart has an assured place in our transport system, so also the boat traffic is likely to remain the cheapest means of transport for a long time to come along the smaller waterways. The whole question of water transport is so important that we recommend an all-India enquiry on the subject. (Para 69)

18. The spread of water hyacinth in Bengal and Assam which drives vast areas of cultivated land out of cultivation and brings the boat traffic along many smaller waterways to a complete standstill, presents a serious problem. (Para 69)

19. Under conditions of monopoly, interests of the public are not always properly safeguarded. The opening up of alternative possibilities of transport by water, both inland and coastal, will operate to the advantage of the cultivator as the element of competition would almost necessarily result in lower rates. (Paras 70 & 71)

20. We strongly recommend a special study of the problem of coastal shipping together with the freight policy of the shipping companies. Conditions in other countries, particularly in Japan, should also be examined in this connection. (Para 72)

21. The recommendations of the Royal Commission on Agriculture for regulated markets have been examined. (Paras 73 to 76)

22. The working of the existing regulated markets has not always been flawless, and only in a very few cases they have approximated to the type which was recommended by the Commission. Besides, the development of regulated markets has been a remarkably slow process. (Paras 77 to 85)

22 (a). The actual working of the existing regulated markets in India has been surveyed in an appendix to Chapter VII. (Paras 88 to 112).

23. The advantages from regulated markets have been summarised. (Para 86)

24. Legislation for regulated markets will soon be in existence practically in all the provinces and in all the bigger and

more important States. We hope that provinces and states will make prompt and unstinted use of the new legislation. The phase of experimentation with regulated markets is now over. What is needed at this stage is their multiplication on the basis of the consolidated results of our past experience. (Para 87)

25. There is at present an absurd multiplicity of weights and measures, which affords greater opportunity for cheating the ignorant cultivator and has in general a hampering effect upon trade and commerce. (Paras 113 to 115).

26. The Bombay Weights & Measures Act of 1932 is now in force in the provinces of Bombay and Sind. The passage of the Standards of Weight Act of 1939 for the whole of India constitutes a landmark in the process of establishing uniform weights and measures. Owing to the force of local trade custom and local tradition, standardisation within provincial limits will have to be attempted first. (Paras 116 to 118).

27. If the laws passed by provincial legislatures are to lead to the desired results, the general public will have to be properly educated and made 'weight-conscious'. Some recommendations have been offered as to how this can be achieved. (Paras 119 to 121)

28. The Metric system not only for weights and measures but also for currency has great advantages. The possibility of adopting this system in this country should be seriously considered by the authorities. (Para 122)

29. The Central Marketing Staff has made a beginning for standardisation and grading of agricultural produce. The work done by the grading stations has been briefly reviewed. Provincial and State Governments have taken over some of the grading stations. The process has been a slow one. Where grading has proved profitable, the multiplication of such stations should be expedited and the efforts of the Central Marketing staff should be supplemented by the active initiative of provinces and states. (Paras 123 to 129)

30. The need for introducing standard contracts and of improving market news service has been emphasised. (Paras 130 to 135)

31. How to retain the advantages of legitimate speculation or risk-bearing, and at the same time prevent it from degenerating into gambling pure and simple, is one of the major problems with which every country is confronted today. The present state of 'futures' markets in India is far from being satisfactory. The question of curbing irresponsible speculation should be carefully examined by the authorities. (Para 136)

32. Steps should be taken to ensure a much greater correlation between production and marketing. (Paras 137 & 138)

33. "Utilisation" and processing industries would directly widen the market for a number of commodities. Steps should be taken all over the country to explore the possibilities of developing such industries. (Paras 139 and 140)

34. Adulteration of food has been a growing menace in this country. The consumer should be better educated to appreciate the purity of foodstuffs and, if necessary, to pay a slightly higher price. In addition, the existing Pure Food Laws should be examined and supplemented where necessary. They must be strictly enforced to stop the evils of food adulteration (Para 141).

35. Low income of the cultivator is responsible for his indebtedness, which in its turn causes dear credit. On the other hand, dear credit is itself a cause of low income, and, therefore, helps in perpetuating indebtedness. The problem can partly be attacked directly from the credit end. (Para 142)

36. The failure to draw the distinction between short-term and long-term finance and to develop suitable institutions for meeting these two types of credit requirements has been a weak feature in the rural credit system. The recent debt legislation, though inevitable under the circumstances, has upset the financial status quo of rural economic life and thus given rise to some serious problems. (Paras 143 to 145)

37. The short-term and long-term credit requirements of the cultivator have been briefly commented upon and certain recommendations offered to make him more credit-worthy. Steps have been recommended to meet the difficulties, which at present stand in the way of advancing crop loans and of turning the bills resulting from these operations into short-term negotiable credit instruments. (Paras 146 to 154)

38. Large sales immediately after the harvest cause a slump in the market and the producer receives a low price for his crop. The reasons why he is constrained to dispose of his produce as soon as it is harvested are: (a) being in dire need for hard cash, he has no resources to hold out for a better price, and (b) there are no facilities for storing his produce and borrow against it. A system of warehouses in rural areas would go a long way in solving the problem. The question has been examined in detail and steps have also been recommended for turning warehouse receipts into first class credit instruments. (Paras 55 to 170)

39. There is at present a plethora of funds at the bigger money markets; while at the same time rural areas suffer from

a scarcity of liquid capital. This is not a happy state of affairs. What we need most in the field of credit today is, so to say, a system for better financial irrigation. (Para 171)

40. The causes of this maldistribution of credit facilities have been examined and commented upon. (Paras 172 to 173)

41. This situation could be remedied if the Government were to float long-term loans and were to make the sums thus raised available through some suitable machinery to the cultivating classes as long-term loans for productive purposes. There was almost an unanswerable case for adopting such a policy when the rates of interest in the bigger money markets reached a very low level during the depression years. (Paras 174 to 175)

42. The maldistribution of credit facilities is, however, to be attributed to institutional shortcomings. A canal should be cut between the big financial centres and the rural areas, so that the liquid money might automatically flow and irrigate the latter. The simplest and most effective method of bringing the advantages of cheap money conditions to the door of the cultivator would be to induce the joint stock banks to participate actively in agricultural credit. In order to achieve this, branch banking will have to be developed on a larger scale and on less expensive lines and at the same time some first-class agricultural bills will have to be created. Railway receipts can and should be turned into negotiable credit instruments. Similarly, as mentioned before, crop bills and warehouse receipts could become first-class agricultural paper. (Paras 176 to 181)

43. Much will, however, depend on the credit facilities offered by the Reserve Bank. Section 17 confers wide powers on the Reserve Bank to engage in operations which would be of great assistance to agricultural credit, but the attitude of the Bank has so far been singularly unhelpful. The reasons for this attitude have been examined. We have strongly recommended that a beginning should be made immediately in using these powers. (Paras 182 to 191)

44. Apart from the changes within the existing credit structure, there is also need for introducing certain structural changes. (Para 192. Also see notes on the Supplementary Report to be submitted later.)

45. Planning in a dynamic world must itself be dynamic. The work done by the Sub-Committee can mark only the beginning and not the end in the process of planning for rural marketing. Certain suggestions have been offered as to how and on what lines this work could be continued in future. (Paras 193 to 205)

**A provisional outline of the Report on Rural Marketing and Finance submitted by the Sub-Committee to the N.P.C. on December 19, 1939**

1. The objective aimed at by the N.P.C. has been clearly formulated in paragraphs 10-13 of the "Note for the guidance of Sub-Committees" (vide Red Book of the N.P.C., pp. 79-80): "The fundamental aim to be kept in view is to ensure an adequate standard of living for the masses. An adequate standard of living implies a certain irreducible minimum plus a progressive scale of comforts and amenities. In order to secure this minimum standard, not only will it be necessary to increase production, but also to bring about a more equitable distribution of wealth. A really progressive standard of life will necessitate the increase of national wealth five or six times. But for the present the minimum standard which can and should be reached is an increase of national wealth between two and three times within the next ten years. It is with this object in view that we should plan now."

2. What are the implications of rural marketing and finance in this context? Evidently our Sub-committee is not concerned with an increase in the total volume of rural production, which, according to the terms of reference is allotted to the various sub-committees. They will have to be studied by the remaining sub-committees of Group 1 (agriculture) as well as the sub-committee on Cottage and Rural Industries. The task of our sub-committee relates only to the problem of distribution. In other words, we have to find out how, given a particular volume of production in the villages, the goods can be so marketed as to secure for the primary producer and the village artisan, what may be regarded as a fair price in order to secure the maximum benefit to the farmer.

3. The conception of a fair price will necessarily call for some clarification. At this stage it will perhaps suffice to point out that we are not concerned with securing an absolute rise in the market price of a particular commodity (revalorisation) through an elaborate attempt to control the market itself which inevitably involves speculative elements and is, in consequence, fraught with heavy risks. It would be safer, and wiser, to proceed in a more modest way. Given the free play of demand and supply, there is a particular market price for a commodity. Our task would be to determine (a) how to

avoid undue fluctuations in demand and supply, and consequently in the price of the commodity, and (b) how to ensure that the margin between the price paid by the consumer and that received by the producer is at a minimum.

4. (a) immediately points to facilities for storing, etc., which will receive due consideration. As regards (b), there is hardly any rural commodity for which it can be said that, even with the given transport facilities, etc., the village producer receives an optimum price for his produce. In other words, there is ample scope to narrow down the margin between the market price and that which goes into his pocket. This means that, with a more rational organisation for marketing rural goods, the income of the village producer can be increased.

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5. Why has the village producer so far failed to realise a high percentage of the price paid by the ultimate consumer for his commodity? There is a host of reasons for this; but they may broadly be classified into two categories: (a) while in every rational economic system the middleman has an indispensable function to fulfil, in India there are, not infrequently, too many middlemen who, among themselves, eat up a disproportionately large part of the price paid by the final consumer, thus leaving a correspondingly smaller balance for the primary producer. Why has the burden of middlemen tended to be heavier than what it should be? The relevant factors are: the ignorance on the part of the villager; lack of financial resources to market his produce in the most economic way and at the most favourable point of time, his frequent indebtedness which weakens his bargaining position, lack of adequate financial facilities from outside which might at least mitigate the evils; dishonesty in weights and measures employed by the middleman, which is by no means a rare phenomenon; and, lastly, lack of adequate co-operation among the primary producers themselves which might induce them to pool their resources and evolve a less wasteful system of marketing.

(b) While, again, transport costs are a considerable item in the market price of a particular commodity in every country, there are reasons to think that, in India, they are very often so heavy in relation to the costs of production, that they effectively hinder the flow of goods from one region to another. This is particularly true of commodities which are both bulky and perishable (e.g., fresh fruits and vegetables). The relatively high level of transport costs reflects the inadequacy of

transport facilities, just as they are mainly responsible for the high level of inter-regional price differences which would be unthinkable in the economically more advanced countries of the West. Heavy cost of transport, lack of facilities for cold storage, etc., explain why often there is an embarrassingly large supply of some commodity in one place which keeps the prices abnormally low, while at the same time there is a substantial margin of unsatisfied demand for the same commodity in other places. This mal-adjustment between demand and supply, a synchronisation of plethora and scarcity, is primarily due to the fact that for a large number of rural articles the local market is much too limited, which in its turn is to be attributed to the insufficient development of communications in rural areas. The bigger the market, the greater the advantage from the point of view of both grower and consumer, for a bigger market brings about an adjustment of demand and supply over a wider area, or, which is the same thing, the field of division of labour is enlarged.

6. To sum up, in the general scheme of national planning rural marketing comes in (a) as a means of increasing the income in cash of the village producer by securing a better price for his produce primarily through lowering the expenses of distribution, and (b) as a means of securing a better flow of rural goods so that (i) rural production would be stimulated and (ii) the margin of unsatisfied demand would be very much smaller. This means that the work of the sub-committee boils down to a study of the deficiencies of the human and mechanical agencies of distribution, to determine what scope there is of (a) cutting down middleman's profit or commission, and (b) of lowering transport and other incidental costs (finance, insurance, storage, etc.) and what steps should be taken to achieve both.

7. So far we have sought to clarify some underlying assumptions. Rural marketing cannot, however, be discussed in the abstract. Once the basic principles have been enunciated, there arises the problem of applying them to specific cases. Now, rural goods do not constitute one homogeneous group. They are so numerous and so varied in character that each commodity or group of commodities may be expected to reveal difficulties which apply only to that commodity or group of commodities. It is, therefore, indispensable to classify rural goods and group together those commodities which are characterised by more or less similar features and could conveniently be treated together for discussing the problem of marketing. The categories suggested below cover practically

the full range of rural goods and may be expected to serve our present purpose:—

**A. Cash Crops:**

1. Cotton
2. Jute.
3. Sugarcane.
4. Wheat.
5. Groundnut.
6. Linseed.
7. Other oil seeds.
8. Rice.
9. Tobacco.

**B. Vegetables and Fruits.**

**C. Eggs.**

**D. Milk and Milk products.**

**E. Fisheries.**

**F. Cottage Industry goods.**

**G. Hides and Skins.**

8. In order to do full justice to the problem of marketing rural goods in India one should have to (i) investigate the position of the cash crops separately; (ii) deal separately with groups C, D, E, G; and (iii) must further split up groups B and F into convenient categories and investigate their respective positions.

Add to all this the fact that, in a vast country like India, there are bound to be very pronounced regional variations for every article or group of articles and that such variations should be carefully ascertained and evaluated while recommending steps for a better marketing organisation; and the baffling magnitude of the task in front of us will at once be clear. Evidently, this would be the work not for one Sub-Committee but of many Sub-Committees and not of six months, but of many years.

9. What, then, should be the exact function of our Sub-Committee? What attitude should we adopt in our final report?

At this stage and with the time at our disposal we can hardly undertake to do more than the following:—

(i) Offer some general considerations on the way in which the task of evolving a better marketing organisation should be approached;

(ii) Give our considered opinion on the more important of the current proposals for an improved marketing of rural goods in India;

(iii) The Department of Agricultural Marketing in India has been working for a few years and has already published several reports (e.g. on wheat, linseed, eggs, tobacco, cold storage and transport of perishable produce in Delhi); and we might offer some comments on the work done so far. The same would hold good about the activities of the Marketing Section of the various Provincial and State Governments.

(iv) For Cotton and Jute Marketing we have special organisations. Again we might give our view on the work of the Cotton and Jute Committees.

(v) As regards the remaining commodities or groups of commodities, we might, here and there, throw some light and, for this purpose, draw upon the experience of the members of the Sub-Committee.

Apart from these, we shall have to consider whether any special organisation or institution, including research bureaus, should be set up to work along the lines to be indicated by us, or, alternatively, if the existing marketing organisations were to be utilised for the purpose, whether they would call for any modifications or extensions.

10. Let us not forget at this point that economic planning presupposes a readiness on the part of the State to act up according to the plan. In India, the force of circumstances has brought about an unfortunate division of functions, and we are planning independently of those who are sitting at the helm of affairs. Nevertheless, as the Chairman of the N.P.C. emphasised in a note, dated June 4, 1939 (vide Red Book of the N.P.C., p. 73) the plan for a national development should be drawn up "for a free and independent India". In other words, in making our recommendations we need not be troubled about the possible attitude of the Government. Our concern is to indicate what should be and not what will be.

(Sd.) Sudhir Sen,  
Hon. Secretary.

9-12-1939,  
Sriniketan,  
Visva-Bharati.

## Notes on the Supplementary Report to be submitted later to the National Planning Committee

1. As mentioned in para 190 of the Report, we have up till now dealt with Rural Finance only in so far as reforms possible within the present frame-work of rural credit are concerned. We have also mentioned that in our opinion certain structural changes are necessary and that we propose to devote another part of the Report to this aspect of Rural Finance. Besides, so far we have mentioned co-operation only in an incidental way. In view of the overriding importance of co-operation in rural marketing and finance, this subject should, in our opinion, be exhaustively dealt with. Accordingly, we propose to undertake a closer study of co-operation—its Present Position and Future Possibilities—with a view to submitting certain constructive suggestions

2. In the course of our discussion on the Draft Report, it became clear that both these questions would call for a more careful consideration than was possible for us within the limited time at our disposal. We, therefore, decided not to submit just now our detailed recommendations on these subjects. A draft report on these parts will, however, be prepared and circulated by the Secretary among the members in the course of the next month. We then propose to arrange for a special discussion of this draft, which, as it now appears, could be most conveniently held perhaps at the end of June next.

3. We do not think that this delay in submitting the chapters on the questions mentioned above, should in the least affect the work of the National Planning Committee, as the more immediate issues have already been dealt with in those parts of the report which we are now submitting.

4. Nevertheless, it may be useful to indicate here, in broad outline, the recommendations we are likely to make in our Supplementary Report.

(a) India lacks a suitable system of Land Mortgage Banks. The existing banks are far from being adequate for the country.

(b) Land Mortgage Banks will necessarily call for a much greater degree of State-aid than ordinary co-operative credit institutions. The feasibility and the desirability of starting State Banks for advancing long-term agricultural loans in the mortgage of land will be examined.

(c) As regards co-operation, a much greater degree of autonomy for the co-operative institutions seems to be neces-

sary. In other words, at present the control from above appears to be excessive.

(d) The primary co-operative credit societies should, as at present, be federated into larger bodies, at the apex of which there should be the Federal Co-operative Bank. The official head of the Co-operative Department (at present the Registrar) should have direct dealings only with the Central body at the top in so far as business policy and management are concerned.

(e) Co-operative sale societies should be organised on a similar basis. Such societies may be organised on a single crop basis or they may deal with a number of crops, whichever may be found suitable. Such sale societies should also be federated in the same way as credit societies and the Registrar should deal exclusively with the Central Body at the top as far as business policy and management are concerned. Such federated bodies should, for all practical purposes, enjoy as much autonomy as possible.

(f) For a long time to come it is very likely that a large number of people will remain outside the range of co-operative societies dealing either with credit or with the sale of rural commodities. It would hardly be possible, nor would it be desirable to compel people to join co-operative organisations. The poorer sections of the community who need the benefits of co-operation most may find it difficult to join the movement because they lack the necessary credit. The interests of these classes must, however, be safeguarded. Only State or State-aided institutions can serve this purpose. We propose to examine the type of institutions which could best meet this need.

(g) For certain parts, particularly the so-called backward areas, grain banks may prove useful.

(h) The desirability of establishing some thrift institutions, for example, like the Trustee Savings Banks of Great Britain, will also be examined.

5. We have tried to indicate above in the briefest possible way the questions we propose to discuss in the remaining parts of the Report. As already mentioned, these questions have mainly long-run implications so that they need not affect the immediate work of the National Planning Committee. At the same time, we propose to undertake this work as it seems necessary to us to bear in mind the type of institutions which we must ultimately evolve so that the system of rural marketing and finance may operate to the maximum advantage of the village community.

## RESOLUTIONS OF THE NATIONAL PLANNING COMMITTEE.

The Final Report of the Rural Marketing and Finance Sub-Committee was presented by Dr. Sudhir Sen, Secretary of the Sub-Committee, on May 9, 1940. The Chairman of the Sub-Committee, the Hon'ble Mr. Ramdas Pantulu, was unable to be present.

Discussion continued on the 11th, 12th and 14th. The following resolutions were passed.

1. The practice of gambling in "futures" markets is objectionable and injurious, and should be put an end to.
2. "Utilisation industries," e.g. for canning fruits, producing fruit juices, tomato sauce, chutney, etc., and "processing industries," e.g. husking paddy, grinding wheat, curing tobacco, will directly widen the market for many agricultural products and frequently fetch higher net prices. Steps should be taken all over the country to explore the possibilities of developing such industries.
3. Adulteration of food has become a growing menace in this country. The consumer should be better educated to appreciate the purity of food-stuffs, and, if necessary, pay a slightly higher price. In addition, the existing Pure Food Laws should be re-examined and supplemented whenever necessary, and must be strictly enforced so as to stop the evils of food adulteration.
4. Rural Finance: The failure to draw a distinction between short-term and long-term finance has been a weak feature in the rural credit system. Suitable institutions for meeting these two types of credit requirements should be developed, and simultaneously steps should be taken to increase the credit-worthiness of the cultivator.
5. The growth of co-operative land mortgage banks has been very slow except in Madras; their individual loans are relatively small, while the total volume of their transactions has never been large. The extension of these banks on proper lines can go a long way in meeting the demand of the cultivator for long-term accommodation. It is desirable, however, to supplement Co-operative Land Mortgage Banks, with State or State-aided Banks for dealing with long-term agricultural credit. The credit thus raised should be used for productive purposes.

6. Short-term loans are needed by the cultivator mainly for his seasonal operations and for the marketing and movement of his crops. He should, therefore, be in a position to borrow against the hypothecation of the crop to be raised and against the produce after it has been raised. In order to render crop hypothecation both cheap and easy, the necessary security must be provided by taking such steps as making it an offence for a cultivator to remove or dispose of hypothecated crops, creating a form of chattel mortgage in respect of the crop in favour of the creditor whose claim will have priority over all others. The creditor in this connection means the State, a co-operative society, or some similar agency controlled by the State.

7. We recommend strongly the establishment of the system of public "warehouses" for storing the produce of the cultivator on the lines suggested by this Committee. The warehouse receipt may be used as security for obtaining accommodation.

8. We recommend that regional investigations on the problem of Rural Marketing be made on scientific lines. It is also necessary to have more detailed and accurate statistical information than has hitherto been available. Steps should be taken to compile more comprehensive statistics on agriculture (production, consumption, trade, etc.) and the appropriate agency for this purpose should be devised.

9. In a planned society, Rural marketing should be organised on the co-operative principle, and eliminate unnecessary transportation of goods. The purchases of rural requirements should also be included in the above organisation.

10. For the transitional stage, we recommend that regulated markets should be extended widely and worked more efficiently in the interest of the cultivators. All dealers in agricultural produce should be licensed in order that their transactions may be controlled.

11. Standardisation and grading of agricultural produce should be introduced, and grading stations under State control be established, as quickly as possible. The introduction of standard contracts should be expedited so as to cover the staple products of India. The market news service should be further developed.

12. In view of the fact that the attitude of the Reserve Bank has so far been unhelpful in regard to agricultural credit, we are of the opinion that the powers conferred on the Bank by Section 17 of the Reserve Bank of India Act should be utilised immediately to make the financial facilities more easily available to the cultivators.

## QUESTIONNAIRE.

\*66. What are the facilities for marketing all the available produce in your Province; agricultural, industrial, forest or mineral?—Within as well as outside the Province?

67. What is the market for the products of cottage industries, small scale industries, and large-scale mechanised modern industry, in your Province? What room is there for the development of the existing local market for the consumption of the raw materials, as well as for that of the finished products made from the raw materials?

68. What are the impediments in the way of a smooth and rapid marketing of local products in your province, with special reference to:—

- (a) proper grading and certification of quality,
- (b) adequate storing of quantity,
- (c) financing of the produce awaiting sale,
- (d) transport facilities for taking produce of all sorts from the place of production to a central market, where storing and grading may be feasible, and all incidental services readily available?

69. How far is the existing middleman participating in the processes just named likely to cause an excessive burden upon the primary producer, as well as on the consumer?

70. What steps, if any, are adopted in your Province to avoid or minimise the burden thus imposed by the middlemen upon the producer and consumer?

71. What rule would you design for the organisation and proper distribution throughout the province of the middlemen so as to fit in with the main scheme of the Planned development, and so as to minimise the number of middlemen, the frequency of their intervention in the process of the transfer of goods and services from the producer to the consumer and the consequent burden imposed by them upon the producer and the consumer?

72. How far is it possible for Government to help to organise the system, marketing, or exchange of all commodities within the Province, and remove the impediments in the way of the most effective and economical marketing, so as to secure the maximum proportion of the price obtained from the eventual consumer for the benefit of the primary producer?

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\* The numbers are from the General Questionnaire.

73. To what extent have measures been adopted, if at all, for the systematic control and regulation in public interest of the whole volume of internal trade in the Province?

74. How far is it possible within your Province to regulate all prices of all necessities of life produced or sold in the province in such a manner as to assure a predetermined degree of a profit margin to the primary producer? Do you consider it desirable to have such a policy?

75. To what extent is the reservation, provided for in the Constitution of 1935, of all powers and functions in regard to the control and regulation of credit, currency, and therefore also of prices within the country in the Central Government of India, a factor militating against the success of any scheme of internal fixation or control and regulation of prices within the province by the Provincial Government?

76. In the absence of any control of the currency and credit system of the country, in the hands of the responsible Provincial Governments, how far would it be possible for Provincial Governments to introduce a system of internal barter, so as to reduce the importance of the cash nexus in the settlement of any trading transaction in the Province, and thereby avoid the influence of outside factors affecting the general price level?

77. How far would the existence of free and competitive trade—so far at least as foreign trade is concerned—frustrate any attempt at all round price control within the Province?

78. How far is the collective organisation of the village population, or of other primary producers and consumers into compact units, a practical proposition in your Province, and to what extent would it help to achieve minimising the intervention of the middlemen, and consequently, of the toll levied by such middlemen, on the producers as well as consumers in the determination of the price-level within the Province?

79. What is the extent of the aggregate trade of your Province with (a) other provinces and states in India, (b) outside India?

80. What are the principal articles of imports and exports, classifying them as (i) food-stuffs, (ii) industrial raw materials, (iii) finished or semi-finished products of industry, (iv) mechanical or other equipment for industry, (v) materials for the conduct, organisation and supply of all accessory articles for such services as Transport, Public Health or Education?

81. To what extent are the articles of agriculture, as well as products of industries, at present imported into the province.

possible to be made, or are actually produced, within the province, or cannot be produced at all on a competitive commercial basis within the province itself?

82. Is there any produce of your Province which can be regarded as the exclusive or partial monopoly of the province? How far is such produce at present disposed of to the ultimate consumer? To what extent is such produce worked up into finished products ready for consumption, within the province, or within the country? Or, in the alternative, to what extent is the produce exported abroad?

83. What are the directions in which a wider development of the international or inter-provincial trade of your province, both as regards exports and imports, can be effected?

84. To what extent, and in what manner, would you suggest a close control and regulation of the trade of your Province described in the preceding question?

85. What are the handicaps or impediments in the way of a proper development of the internal trade in the province, of its inter-provincial trade and of its foreign trade in respect of:—

- (a) financing,
- (b) transport,
- (c) relative stability of the price-level, and
- (d) a proper marketing organisation?

In what way are these handicaps capable of being removed or remedied?

86. How far is it possible to fit in the requirements of the trade and commerce of your Province, both within the Province itself and outside the Province, with the general scheme of Planning for the collective economy of the nation considered in the aggregate?

87. To what extent would the regulation of the foreign and overseas trade of India by such means as specified Trade Treaties with our principal customers in the world benefit your Province?

88. How would a system of Imperial Preference affect the economic condition and the local, Indian and foreign trade of your Province?

89. What are the principal agencies conducting the foreign trade of your Province? What methods of regulating the trade do you suggest?

90. In what way would the trade of your Province—local, Indian and foreign—be affected by the modification of the principle of private enterprise, in all branches of production and consumption of goods and services?

## SUMMARY OF DEVELOPMENTS.

A good many of the developments in Rural Marketing have already been noticed in the Introduction. The most noticeable growth in recent years is the growing vogue of Grading or Standardising officially the quality of rural produce, which helps effectively in marketing at home as well as in foreign countries. Another development of first magnitude has occurred during the War in the shape of Control of Prices and Rationing of Supplies. Though introduced first as part of the War Effort, it is an indispensable ingredient of Scientific Planning. There has been some demand for the relaxation of price control with the end of hostilities—mainly on the ground that the system of control in food-grains, jute and cotton, sugar, cloth, coal and other essential agricultural commodities, has resulted in increasing corruption in public officials. But without such control and regulation the weaker elements in the community would have been driven to despair. Besides, bribery and corruption were by no means unknown in the days before Rationing and Price Control, even in the best organised industries; nor were these a monopoly of the public official only; while the exactions from the illiterate peasant by a host of official or non-official harpies were too complicated and camouflaged to be always understandable even by those who practised them. Given the present position of the Agriculturist in India, it is hopeless to expect any real improvement in his conditions or prospects, without a measure of control, regulation and supervision of the elements which help to dispose of agricultural produce.

The Agricultural Marketing Department, and its device of "AGMARK" have an abiding utility, which, it may well be urged, should be integrated in the National Plan and made a permanent feature of that Plan. The Department has its own stalls of agricultural produce, with its own hallmark of quality. They work in close co-operation with the Price Control Mechanism. Where the manufacturing industry using agricultural produce as raw material is well organised and powerful, e.g., Cotton Textiles, the interests of the cultivator do not seem to have been scrupulously and effectively attended to in fixing prices and rationing supplies. The fixing of floor and ceiling prices for standard quality of cotton has been notoriously far below parity with the American Cotton, while the cotton producer was cut off from his pre-war export markets. At the same time the principal consumer of raw cotton, the Cotton

Mill Industry, was not only assured a full demand for its output at disproportionately high prices, but, until quite recent times, was left free to exploit to the hilt the country's own demand for its products.

This seems unavoidable under the existing social system, where the industrial manufacturer and his middleman must always grow richer at the cost of the peasant. The Planning Authority must take care, however, that the phenomenon is not repeated in planned economy. The growth of the Black Market is much greater in industrial than in agricultural produce. It is mainly a town phenomenon; but its tentacles spread out into the rural areas also, not less effectively because they are less visible. The agriculturist suffers much more than the town labourer or consumer of such black market supplies. The recent scarcity in food-stuffs has led to an unprecedented development and elaboration of the machinery for procuring and holding stocks by public authorities, in order to ensure adequate supply of essential commodities to the individual consumer; and maintenance of fixed prices. This has not ended Black Marketing; but it has saved the peasant from total destitution. It has not quite justified the saying that true civilisation consists in a **Survival of the Weakest**; but it has proved the possibility of prolonging the agony of a dying patient by keeping him on oxygen.

Thanks to the world shortage of food, a new department of the Central Government has been established to deal with Food and Agriculture in general; while Industries and Supplies—another war-time addition to the Central Government Departments—attends to the production and supply side of many commodities which are produced locally or imported from abroad. The Import as well as the Export Trade is closely regulated by a widespread system of licensing, which, though not as universal and rigid as a rigorous planner may desire, or a complete socialisation of the national economy may require, is nevertheless proving sufficiently effective to warrant its continuance and extension notwithstanding the complaints of interested parties.

A direction in which the Agricultural Marketing Department may prove to be still more useful than it has done hitherto is in the collection, compilation, and publication of statistical and other objective information relating to agricultural produce, both at home and abroad. There is a great lack of such data, indispensable for effective planning; and every department which helps to make good this lack must needs serve a most useful purpose.

Early in 1945, the Central Government set as part of the Policy Committee No. 5 on Agriculture, Forestry and Fisheries, a special Marketing Sub-Committee to examine the entire question of agricultural marketing, the maintenance of standards, of purity or quality, the establishments of warehouses, and the organisation and functions of the Central Provincial Marketing Departments. The Sub-Committee is reported to have finished deliberating, and its Report is likely to form the basis of policy in the future organisation of Rural Marketing.

From the standpoint of the individual cultivator, the best help comes from the Co-operative Society, which attends to production and sale. There were, on the 30th June 1943, some 15,399 such societies in British India; with a total membership verging on 23 lakhs. There is a very wide field of development in this regard, which no Planning Authority can overlook. For the principle of self-help would be a source of immense strength to the producer, even when planning is complete and universal. The financing of Agricultural produce is mainly done still by the village merchant, though the Reserve Bank of India has a separate Department for the purpose, while the Co-operative Credit Society is taking an increasing hand in the business.





